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Foreign Relations
of the
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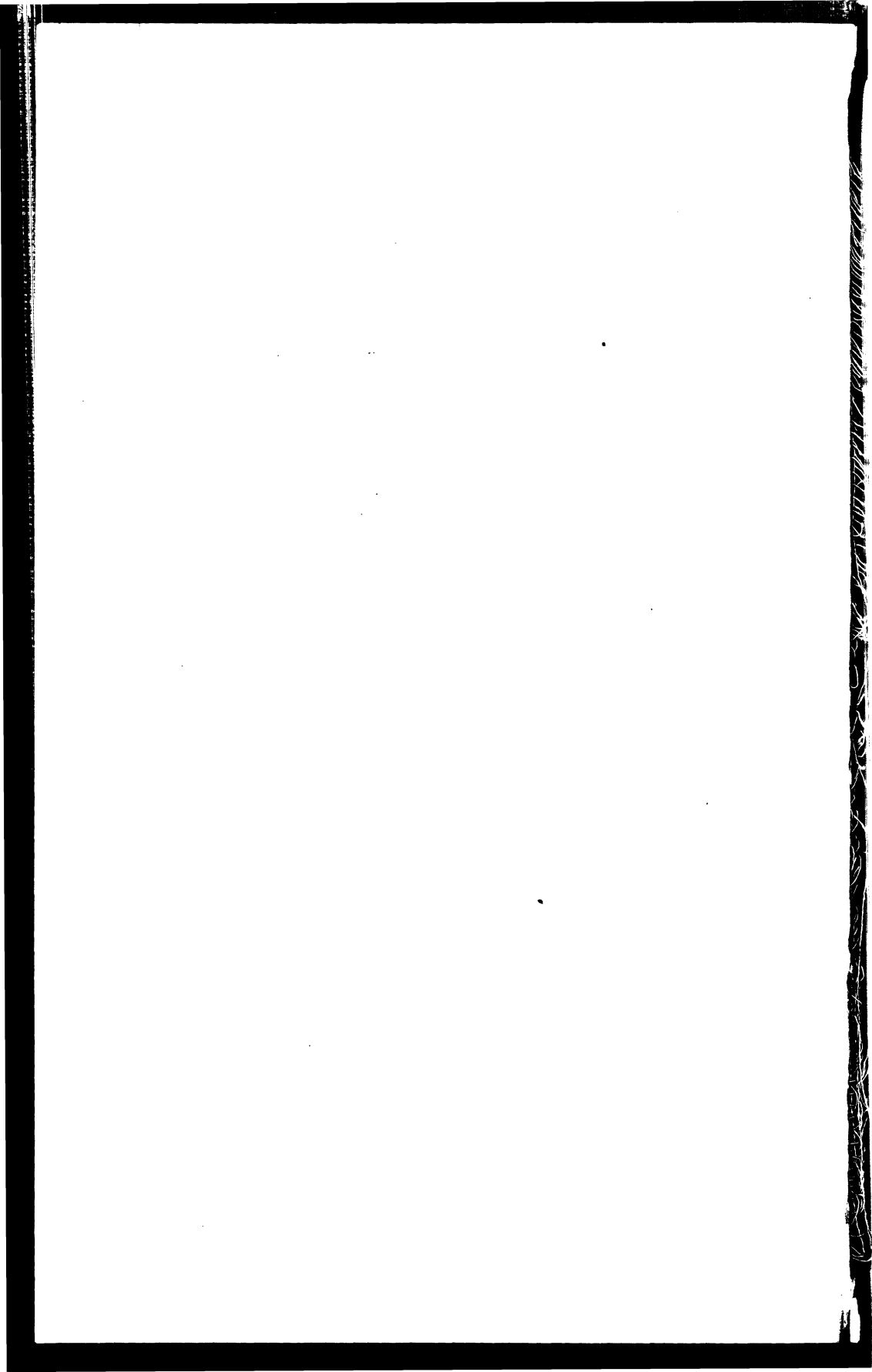
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Volume V

THE AMERICAN
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CONTENTS

	Page
LIST OF PAPERS	v
BOLIVIA:	
Representations regarding extraordinary war taxes created by Bolivian law of September 30, 1932	1
Arrangement between the United States and Bolivia for extension to Consular officers, on basis of reciprocity, of the privilege of free importation of articles for personal use	9
BRAZIL:	
Preliminary discussions respecting a trade agreement between the United States and Brazil	13
Efforts of the Department of State and private firms to secure equitable treatment for American interests with respect to Brazilian exchange restrictions	30
Efforts to secure equitable treatment for American creditors in the servicing of Brazilian Federal, State, and municipal debts	75
CHILE:	
Efforts of the Department of State to secure equitable treatment for American interests with respect to Chilean exchange restrictions .	103
Representations to protect American interests in the liquidation of Cosach and the reorganization of the Chilean nitrate industry . . .	154
COLOMBIA:	
Unperfected reciprocal trade agreement between the United States and Colombia, signed December 15, 1933	217
Representations to the President of Colombia against bills for the suspension of debt service on external obligations of the Government of Colombia	254
COSTA RICA:	
Informal suggestions of the United States with respect to the canal provisions of the proposed treaty of commerce and navigation between Costa Rica and Italy	266
CUBA:	
Revolution in Cuba—Efforts of the United States to aid in restoring political peace:	
I. Increasing opposition to President Machado and overthrow of his government	270
II. Government of President Céspedes and army revolt led by Sergeant Batista	361
III. The Regime of Grau San Martín	416
Plans for the adjustment of Cuban finances	546

DOMINICAN REPUBLIC:	Page
Execution of the emergency law of October 1931 and further suspension of amortization payments on the external debt of the Dominican Republic	589
ECUADOR:	
Efforts by the Department of State to secure equitable treatment for American interests with respect to Ecuadoran exchange restrictions	672
EL SALVADOR:	
Refusal of the United States to recognize the Martínez regime in El Salvador	678
HAITI:	
Negotiations regarding control of Haitian finances, Haitianization of the Garde, and withdrawal of American Marines; Agreement of August 7, 1933, and further negotiations for ending American financial control	691
Exchange of notes, October 31, 1933, with respect to the Haitian budget and accounting law of July 4, 1933	778
Agreements between the United States and Haiti, signed July 19, 1933, and October 27, 1933, amending the Garde Agreement of August 24, 1916	784
Waiving of immunity for American treaty official from jurisdiction of Haitian courts in case of fraud in the collection of customs	788
MEXICO:	
Efforts to reach a settlement between the United States and Mexico regarding claims	798
Convention between the United States and Mexico for the rectification of the Rio Grande in the El Paso-Juarez Valley, signed February 1, 1933, and exchanges of notes	823
Recommendation by the American Ambassador and Mexican Minister for Foreign Affairs that a joint commission be appointed to study matters of mutual self-defense	830
Efforts to stop illegal entry of Chinese nationals from Mexico into the -United States	839
NICARAGUA:	
Disclaimer by the Department of State of further responsibility regarding the Guardia Nacional following the evacuation of Nicaragua by the United States Marines	848
PANAMA:	
Adoption of remedial measures for the Canal Zone in consultation with President Arias of Panama during his visit to the United States . .	852
INDEX.	871

LIST OF PAPERS

(Unless otherwise specified, the correspondence is *from* or *to* officials in the Department of State.)

BOLIVIA

REPRESENTATIONS REGARDING EXTRAORDINARY WAR TAXES, CREATED BY BOLIVIAN LAW OF SEPTEMBER 30, 1932

Date and number	Subject	Page
1932 Sept. 7 (75)	<i>From the Minister in Bolivia (tel.)</i> Opinion that 1% tax levied by the Bolivian Government on foreign capital invested in Bolivia would be in violation of existing treaties and would directly affect American interests.	1
Sept. 10 (34)	<i>To the Minister in Bolivia (tel.)</i> Request for further details regarding the proposed capital levy.	1
Sept. 12 (78)	<i>From the Minister in Bolivia (tel.)</i> Information that tax proceeds will be used for national defense; that method of collection will be regulated by subsequent decree and that levy will involve article 3 of U. S.-Bolivian treaty of 1858.	1
Sept. 19 (85)	<i>From the Minister in Bolivia (tel.)</i> Advice that tax bill was passed by Chamber of Deputies and that British Chargé has instructions to bring matter to the attention of Bolivian Government when law is finally promulgated.	2
Sept. 22 (36)	<i>To the Minister in Bolivia (tel.)</i> Department's doubt as to whether article 3 or any part of the 1858 treaty is violated by proposed tax bill.	2
Oct. 5 (93)	<i>From the Minister in Bolivia (tel.)</i> Information that tax law was promulgated September 30 and that British Chargé is informing Bolivian Government that it is presumed British interests will be exempt under terms of article 9 of British-Bolivian treaty of 1911.	2
Oct. 13 (101)	<i>From the Minister in Bolivia (tel.)</i> Foreign Minister's belief that foreign individuals and corporations would be exempt under terms of existing treaties.	3
Oct. 19 (43)	<i>To the Minister in Bolivia (tel.)</i> Instructions to request, if deemed necessary, that American citizens in Bolivia be exempted from payment of the war tax.	3
1933 Jan. 25 (525)	<i>From the Minister in Bolivia</i> Request for instructions as to what further representations may be made to the Bolivian Government in connection with an inquiry made by Patino Mines and Enterprises, Inc., an American firm with large interests in Bolivia.	3
Feb. 18 (4)	<i>To the Minister in Bolivia (tel.)</i> Instructions to request exemption under article 3, treaty of 1858, on behalf of Patino Mines and Enterprises, Inc., and any other American corporations or citizens called upon to pay war tax.	5

BOLIVIA

REPRESENTATIONS REGARDING EXTRAORDINARY WAR TAXES, CREATED BY
BOLIVIAN LAW OF SEPTEMBER 30, 1932—Continued

Date and number	Subject	Page
1933 Mar. 22 (570)	<i>From the Minister in Bolivia</i> Report on representations made to the Foreign Minister.	5
Aug. 30 (673)	<i>From the Minister in Bolivia</i> Information that further American and British representations concerning status of corporations will depend upon legal interpretation of the words "citizens" and "subjects" and the applicability to them of the terms of the 1931 Referendum.	6
	(Note: Bolivian issuance on May 12, 1935, of a circular indicating that nationals of the United States and certain other countries are exempt from war taxes under existing treaties.)	9

ARRANGEMENT BETWEEN THE UNITED STATES AND BOLIVIA FOR EXTENSION TO
CONSULAR OFFICERS, ON BASIS OF RECIPROCITY, OF THE PRIVILEGE OF FREE
IMPORTATION OF ARTICLES FOR PERSONAL USE

1932 Nov. 8 (153)	<i>To the Minister in Bolivia</i> Instructions to inform Foreign Ministry that, reciprocally and upon request of Bolivian Legation in Washington, arrangement may be made for free entry of articles imported into the United States by Bolivian consular officers and their families.	9
Dec. 28 (500)	<i>From the Minister in Bolivia</i> Information that arrangement as suggested in Department's instruction No. 153, November 8, is accepted by the Bolivian Government without reservation.	10
1933 Jan. 6 (501)	<i>From the Minister in Bolivia</i> Advice that Bolivian authorities will consider matter of reciprocal privileges as definitely arranged after an accord has been reached between the Department and the Bolivian Legation.	11
Jan. 27	<i>To the Bolivian Minister</i> Formal U. S. acceptance of arrangement for extension of reciprocal privileges.	11
Jan. 30	<i>From the Bolivian Minister</i> Information that instructions to conclude the accord have been received from the Foreign Ministry.	12

BRAZIL

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE
UNITED STATES AND BRAZIL

1933 July 12 (57)	<i>To the Chargé in Brazil (tel.)</i> Advice that the Brazilian Ambassador has been informed of the Department's desire to open exploratory conversations with a view to the negotiation of a U. S.-Brazilian reciprocal trade agreement; instructions to bring matter informally to the Foreign Minister's attention and report his comments.	13
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BRAZIL

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL—Continued

Date and number	Subject	Page
1933 July 15 (65)	<i>From the Chargé in Brazil (tel.)</i> Foreign Minister's advice that appropriate departments of the Brazilian Government must first submit their views with respect to negotiation of a trade agreement before any definitive statement on the subject can be made, but that the Brazilian Government is favorably inclined in principle toward such negotiations.	13
July 18 (66)	<i>From the Chargé in Brazil (tel.)</i> Comments on press despatches concerning Brazil's reputed cautious acceptance of the U. S. proposal to explore the possibilities of a reciprocal agreement.	13
July 22 (67)	<i>From the Chargé in Brazil (tel.)</i> Information from the Under Secretary of State that the Brazilian Ambassador in Washington has been instructed to open negotiations for a trade agreement.	14
July 27	<i>Memorandum by the Acting Secretary of State</i> Brazilian Ambassador's advice of his Government's willingness to begin conversations looking to a possible trade agreement; Acting Secretary's offer to address a letter to the Brazilian Ambassador concerning exploratory nature of these conversations.	14
July 28	<i>To the Brazilian Ambassador</i> Expression of pleasure at Brazilian acceptance of suggestions for trade agreement conversations, and comment as to exploratory character of the proposed conversations.	15
Aug. 1	<i>From the Brazilian Ambassador</i> Reply to Acting Secretary's letter of July 28, requesting information concerning U. S. views as to possible bases for a commercial agreement.	15
Aug. 11	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Mr. Accioly, Counselor of the Brazilian Embassy, who was told that a written reply would be made to the Brazilian Ambassador's request for U. S. views regarding bases for a commercial agreement; U. S. hope that Brazil will decide to send experts to the United States for the conversations.	16
Aug. 19	<i>To the Brazilian Ambassador</i> Suggested bases for a commercial agreement; request that pending a decision by the Brazilian Government to send technical experts to Washington, the Ambassador plan to begin preliminary conversations at an early date.	17
Aug. 19 (64)	<i>To the Ambassador in Brazil (tel.)</i> Transmittal of copy of Department's letter of August 19 to the Brazilian Ambassador (<i>supra</i>); instructions to inform the Foreign Minister of the U. S. hope that conversations may begin in the near future.	18
Aug. 21 (74)	<i>From the Ambassador in Brazil (tel.)</i> Foreign Minister's advice that Brazilian Government is prepared to begin preliminary conversations at once.	18

BRAZIL

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL—Continued

Date and number	Subject	Page
1933 Aug. 29	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Account of first informal conversation between Department officials and the Brazilian Ambassador on negotiation of a commercial agreement.	19
Aug. 31 (75)	<i>From the Ambassador in Brazil (tel.)</i> Request for information concerning the course of the trade agreement discussions. (Footnote: Transmittal of requested information by telegram No. 66, September 2.)	20
Sept. 1	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Mr. Accioly, during which certain Brazilian inquiries with regard to the trade agreement negotiations were discussed and it was suggested that discussions of the experts begin on September 18.	21
Oct. 12	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Telephone conversation with Mr. Accioly, who related Brazilian refusal to begin detailed treaty discussions until the arrival in Washington of Mr. Penna, one of the Brazilian experts. (Footnote: Information of Mr. Penna's expected arrival in Washington on October 28; agreement that discussions should begin on October 30.)	22
[Oct. 30]	<i>Memorandum Handed to the Brazilian Ambassador by the Assistant Secretary of State, on October 30, 1933</i> Draft text of reciprocal trade agreement between the United States and Brazil.	23
Nov. 14 (2)	<i>From the Secretary of State to the Acting Secretary of State (tel.)</i> Request for information regarding trade agreements being negotiated with Brazil and Argentina. (Footnote: Information that the Secretary of State was en route to the Seventh International Conference of American States at Montevideo.)	28
Nov. 15 (5)	<i>From the Acting Secretary of State to the Secretary of State (tel.)</i> Information requested in telegram No. 2, November 14.	28
Dec. 6 (103)	<i>To the Ambassador in Brazil (tel.)</i> Request that Ambassador attempt to hasten Brazilian answer to U. S. draft trade agreement.	29
Dec. 8	<i>From the Ambassador in Brazil (tel.)</i> Information that purport of telegram No. 103, December 6, has been conveyed to the appropriate Foreign Office official, who promised that a reply would be expedited.	30

BRAZIL

EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS

Date and number	Subject	Page
1933 Jan. 21 (15)	<i>To the Ambassador in Brazil (tel.)</i> Instructions to submit a report and recommendations with respect to the alleged inequitable allocation to U. S. nationals of the exchange cover available in Brazil, especially with reference to the Rothschild Credit and Brazilian special exchange arrangements with other countries.	30
Feb. 2 (4028)	<i>From the Ambassador in Brazil</i> Submission of detailed preliminary report concerning Brazilian exchange restrictions; request for authorization to discuss the situation informally and orally with appropriate Brazilian authorities; memorandum (text printed) by the American Chamber of Commerce for Brazil containing suggestions for action with respect to exchange transactions in Brazil.	31
Feb. 6 (11)	<i>From the Ambassador in Brazil (tel.)</i> Opinion that general exchange situation will be eased by May or June and that attention then will be given to accumulated milreis.	40
Feb. 21 (37)	<i>To the Chargé in Brazil (tel.)</i> Authorization for discussion with Brazilian authorities concerning the exchange situation; disapproval of the American Chamber of Commerce suggestion relating to the execution of a compensating agreement between the United States and Brazil.	41
Mar. 10 (33)	<i>From the Ambassador in Brazil (tel.)</i> Information concerning Brazilian negotiations with Rothschild representative for a long-term loan, which will be applied to alleviation of the accumulated commercial exchange situation.	41
Mar. 14 (42)	<i>To the Ambassador in Brazil (tel.)</i> Instructions to report details concerning proposed long-term loan, as to how it will be applied to alleviating exchange and when the relief should be expected.	42
Mar. 28 (45)	<i>To the Ambassador in Brazil (tel.)</i> Request for verification and pertinent information on the report that a special Rothschild representative arrived in Brazil March 10 and will soon present a plan for the settlement of Brazil's foreign debts in Europe.	42
Mar. 30 (38)	<i>From the Ambassador in Brazil (tel.)</i> Advice that, as previously reported, Rothschild representative is conferring with Brazilian Government on long-term loan, and that no special favors to British interests are contemplated.	42
Mar. 30 (39)	<i>From the Ambassador in Brazil (tel.)</i> Opinion that British proposals for commercial or exchange favors will not be made to Brazil until after the successful outcome of present British negotiations with Argentina.	43

BRAZIL

EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS—Continued

Date and number	Subject	Page
1933 May 12	<i>From the American Chamber of Commerce for Brazil to President Roosevelt (tel.)</i> Review of American trade conditions in Brazil resulting from exchange restrictions, and recommendation for U. S. insistence that Brazilian Government furnish exchange for recent unpaid shipments, new current requirements, and frozen funds.	43
May 16 (52)	<i>From the Chargé in Brazil (tel.)</i> Request for instructions regarding a formal inquiry made to the Embassy by the American Chamber of Commerce with respect to the obtaining of certain information from the Bank of Brazil.	44
May 18 (49)	<i>To the Chargé in Brazil (tel.)</i> Instructions requested in telegram No. 52, May 16; advice concerning acknowledgment of American Chamber of Commerce telegram of May 12 to President Roosevelt.	44
May 19	<i>From the Consul General at Rio de Janeiro (tel.)</i> Report that Finance Minister has declared that special exchange facilities cannot be granted for American exports to Brazil.	44
May 20	<i>Memorandum by Mr. W. R. Manning of the Division of Latin American Affairs</i> Conversation between U. S. Government representatives and special Brazilian delegation, at which it was suggested that U. S. Secretary of State might use his good offices to obviate a possible U. S. coffee tax if Brazilian delegation could give written assurance of fair and equitable treatment for American commercial interests in Brazil with respect to service of loans and exchange distribution.	45
May 20	<i>Memorandum by Mr. W. R. Manning of the Division of Latin American Affairs</i> Special conference between U. S. officials and Brazilian delegation regarding distribution of exchange cover in Brazil with particular emphasis on the desire of American interests in Brazil to obtain fair and adequate exchange cover in order to transfer their accumulated milreis credits to the United States.	46
May 23	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Meeting between U. S. officials and Brazilian delegation at which an agreement was reached on the text of a statement to be made public and a confidential message for U. S. Secretary of State regarding Brazilian assurance of fair treatment of American interests in exchange matters; letter from the Secretary of State to the Chairman of the Brazilian delegation (text printed) expressing his opposition to imposition of a U. S. coffee tax.	48
May 26	<i>To Mr. Fred I. Kent, Supervisor of Exchange, Federal Reserve Bank of New York</i> Inability of Department of State to undertake negotiations for a suggested loan arrangement with the Brazilian Government for unfreezing of American commercial credits in Brazil.	50

BRAZIL

EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS—Continued

Date and number	Subject	Page
1933 May 26	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation between Department officials and representatives of the Standard Oil Company of New Jersey and the National Foreign Trade Council concerning discussions held between the Department and the Brazilian delegation; Department's attitude that exchange matter should be worked out with Brazil by the private interests concerned.	51
May 27	<i>From Mr. Fred I. Kent, Supervisor of Exchange, Federal Reserve Bank of New York</i> Conversation with Dr. Numa de Oliveira of the Brazilian delegation, during which a plan was discussed for the participation of the Reconstruction Finance Corporation in loan arrangements for the release of blocked milreis deposits.	53
June 2	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Telephone conversation with Palmer E. Pierce of the Standard Oil Company of New Jersey concerning a proposed arrangement between U. S. interests in Brazil and the Bank of Brazil with respect to the liquidation of frozen assets and dividend payments.	54
June 2 (4110)	<i>From the Chargé in Brazil</i> Official announcement of the payment by the Brazilian Government of the final installment of the Rothschild loan, and information concerning effect on exchange market.	55
June 15	<i>From the President of the National Foreign Trade Council</i> Draft agreement (text printed) between the Banco do Brasil and the committee representing American holders of blocked currency in Brazil.	56
June 27 (24)	<i>To President Roosevelt (tel.)</i> Request for instructions in regard to question of economic policy presented by the agreement signed between the Banco do Brasil and certain American firms in Brazil, which involves granting of a preference to one group of American creditors over another.	60
June 29 (17)	<i>From President Roosevelt (tel.)</i> Opinion on question presented in telegram No. 24, June 27.	61
June 29	<i>To the President of the National Foreign Trade Council</i> Department's position with respect to the agreement between the Banco do Brasil and certain American firms.	62
July 6	<i>Memorandum by the Assistant Economic Adviser</i> Comments concerning a <i>New York Times</i> article with regard to the filing of claims for transfer of U. S. blocked funds in Brazil under the recent Brazil transfer agreement; further advice that British and French interests having frozen funds in Brazil expect to make similar agreements.	62
July 20 (4161)	<i>From the Chargé in Brazil</i> Information concerning recently published French decree (text printed), which provides for application of French import control regulations to imports from Brazil and transfer of French credits in Brazil.	63

BRAZIL

EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS—Continued

Date and number	Subject	Page
1933 Aug. 15 (3)	<i>From the Ambassador in Brazil</i> Foreign Office statement (text printed) announcing that as a result of Franco-Brazilian negotiations the French decree of July 8 has been suspended until September 15.	65
Sept. 5 (85)	<i>From the Brazilian Ambassador</i> Memorandum (text printed) requesting the opening of a credit of \$50,000,000 in favor of the Banco do Brasil as an exchange fund for the purpose of paying for imported merchandise.	66
Oct. 21 (98)	<i>From the Ambassador in Brazil (tel.)</i> Suggestion that Fred Kent, Exchange Supervisor for the Federal Reserve Bank of New York, be fully informed with regard to French negotiations for a milreis agreement with Brazil.	68
Oct. 23 (100)	<i>From the Ambassador in Brazil (tel.)</i> Advice from Foreign Minister that Franco-Brazilian negotiations have broken down and that the French intend to put their decree of July 8 into effect.	68
Oct. 25 (87)	<i>To the Ambassador in Brazil (tel.)</i> Information that copies of the Embassy's despatch No. 4161, July 20, and telegram No. 100, October 23, have been sent to Kent; request for a report on apprehended difficulties with regard to U. S. milreis agreement.	69
Oct. 27 (78)	<i>From the Ambassador in Brazil</i> Report of Brazilian restrictions on import and exchange transactions with France in retaliation for French coercive measures against Brazil.	69
Oct. 27 (106)	<i>From the Ambassador in Brazil (tel.)</i> Advice that American business interests in Brazil are encountering difficulties in securing exchange cover and are getting little encouragement from Figueiredo, Director of the Exchange Bank of Brazil, to hope for compliance with the Bank's commitments.	70
Nov. 1	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation between Mr. Kent and officials of the Department regarding Brazilian exchange developments and Brazilian plan for service of its foreign debt.	70
Nov. 10	<i>To the Brazilian Ambassador</i> Department's viewpoint that U. S. Government could not properly be involved with regard to the Brazilian credit request, and that matter should be taken up with private concerns.	72
Dec. 11 (121)	<i>From the Ambassador in Brazil (tel.)</i> From Commercial Attaché for Department of Commerce: Advice that the Bank of Brazil has adopted a policy of supplying exchange to cover imports of raw materials only; opinion that vigorous representations should be made by the United States.	73

BRAZIL

EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS—Continued

Date and number	Subject	Page
1933 Dec. 13 (106)	<i>To the Ambassador in Brazil (tel.)</i> Request for comment and recommendations regarding the new Brazilian exchange policy referred to in telegram No. 121, December 11.	73
Dec. 20 (110)	<i>To the Ambassador in Brazil (tel.)</i> Request for advice as to what effect Brazilian exchange policy will have on imports of wheat flour.	73
Dec. 21 (124)	<i>From the Ambassador in Brazil (tel.)</i> Information requested in telegram No. 110, December 20, and report of further developments in exchange situation.	74
Dec. 21 (126)	<i>From the Ambassador in Brazil (tel.)</i> Information that several American companies are not receiving exchange cover from the Bank of Brazil; and that the Director, Figueiredo, has told these and other applicants that he is unable to carry out his undertakings owing to lack of foreign exchange; recommendations for action in the matter.	74
Dec. 27 (129)	<i>From the Ambassador in Brazil (tel.)</i> Information from U. S. Consuls tending to nullify Figueiredo's claims of lack of foreign exchange.	75
Dec. 31 (131)	<i>From the Ambassador in Brazil (tel.)</i> Resignation of Figueiredo; suggestion for withholding of U. S. action pending further developments.	75

EFFORTS TO SECURE EQUITABLE TREATMENT FOR AMERICAN CREDITORS IN THE SERVICING OF BRAZILIAN FEDERAL, STATE, AND MUNICIPAL DEBTS

1933 Sept. 16 (82)	<i>From the Ambassador in Brazil (tel.)</i> Information that Brazilian Government has consulted with Sir Otto Niemeyer, of the Bank of England, regarding formulation of a plan for payment of Brazilian foreign debt obligations, and that Brazilian officials have been informed of U. S. interest in the plan; request for Department's guidance and any suggestion which Fred Kent, of the Federal Reserve Bank of New York, may offer with regard to the matter.	75
Sept. 27 (58)	<i>From the Ambassador in Brazil</i> Draft plan (text printed) for the adjustment of Brazilian national, state, and municipal debts.	76
Sept. 28 (73)	<i>To the Ambassador in Brazil (tel.)</i> Instructions to advise appropriate authorities that opportunity should be given to those bondholders whose interests might be affected to express their opinions before any payment plan is adopted by the Brazilian Government; request for information regarding principles used in determining grouping of various loans and for an indication of just what loans will fall in certain classes.	79
Oct. 5 (88)	<i>From the Ambassador in Brazil (tel.)</i> Opinion that the United States should submit at an early date a definite statement of its desiderata with respect to Brazilian debt payment plan.	80

BRAZIL

EFFORTS TO SECURE EQUITABLE TREATMENT FOR AMERICAN CREDITORS IN THE
SERVICING OF BRAZILIAN FEDERAL, STATE, AND MUNICIPAL DEBTS—Continued

Date and number	Subject	Page
1933 Oct. 9	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Telephone conversation with Mr. Kent, who expressed his opinions with regard to the Brazilian plan for payment of foreign debt obligations.	80
Oct. 11	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Telephone conversation with Mr. Kent, during which he read an extract from a letter he had written to the Brazilian Finance Minister regarding grouping of American federal loans in the Brazilian debt plan.	81
Oct. 21 (84)	<i>To the Ambassador in Brazil (tel.)</i> Advice that Department is sending an instruction criticizing the debt plan; request that, until this instruction is received, measures be taken to insure that the Brazilian Government will take no untimely action on the matter.	82
Oct. 23 (99)	<i>From the Ambassador in Brazil (tel.)</i> Information that views expressed in Department's telegram No. 84, October 21, have been conveyed to Foreign Minister and Finance Minister; advice that Finance Minister has received a letter from Kent asserting that the plan discriminates in favor of the British.	82
Oct. 24 (23)	<i>To the Ambassador in Brazil</i> Detailed criticism of debt plan as being inconsistent with former Brazilian assurances of equitable and fair treatment for American bondholders as compared with treatment accorded bondholders of other countries; instructions to present U. S. views to the Brazilian Government.	83
Oct. 25 (105)	<i>From the Ambassador in Brazil (tel.)</i> Conversation with Finance Minister, wherein he spoke in detail of the background of the present debt plan and remarked that he would have welcomed American guidance in formulation of the plan if it had been offered; Ambassador's request for Department's views on the advisability of sending Kent to Brazil.	87
Oct. 28 (107)	<i>From the Ambassador in Brazil (tel.)</i> Finance Minister's indication in press interview that plan is nearly completed, and information concerning a message approving plan sent to Finance Minister from Dillon, Reed. Summary of U. S. representations made to various Brazilian officials, and suggestion that Department impress Brazilian Ambassador with seriousness of its views so that he may inform his Government.	88
Oct. 30 (91)	<i>To the Ambassador in Brazil (tel.)</i> Department's failure to understand reported statement of Brazilian Finance Minister that representatives of bondholders had accepted in principle the Government's plan for servicing state and municipal debts; reiteration of U. S. hope that Brazil will not announce a discriminatory payment plan without consulting American interests.	89

BRAZIL

EFFORTS TO SECURE EQUITABLE TREATMENT FOR AMERICAN CREDITORS IN THE
SERVICING OF BRAZILIAN FEDERAL, STATE, AND MUNICIPAL DEBTS—Continued

Date and number	Subject	Page
1933 Oct. 30 (92)	<i>To the Ambassador in Brazil (tel.)</i> Instructions, in view of Brazilian Government's apparent misunderstanding, to present formally Department's position as set forth in instruction No. 23 of October 24; objection to proposed mission to Brazil by Kent; reference of foreign debt problem to bondholders' organization.	90
Oct. 31 (93)	<i>To the Ambassador in Brazil (tel.)</i> Advice that Brazilian Ambassador has been informed of U. S. viewpoint with regard to foreign debt plan.	91
Nov. 8 (109)	<i>From the Ambassador in Brazil (tel.)</i> Information that substance of instruction No. 23, October 24, has been formally presented to the Foreign Office; report of representations made to Brazilian officials stressing the U. S. proposal that no debt plan should be put into effect without consultation with the newly created Bondholders' Commission.	91
Nov. 9 (110)	<i>From the Ambassador in Brazil (tel.)</i> Suggestion that Brazilian Ambassador be urged to inform his Government of the Department's views and also to obtain assurance from his Government that an opportunity will be afforded for the Bondholders' Commission to confer.	92
Nov. 9 (111)	<i>From the Ambassador in Brazil (tel.)</i> Request of Foreign Minister and Finance Minister that Department furnish a copy of the debt plan to the Bondholders' Commission.	93
Nov. 10 (94)	<i>To the Ambassador in Brazil (tel.)</i> Advice that an informal memorandum was handed to the Brazilian Ambassador expressing Department's views regarding necessity for consultation between Brazilian Government and Bondholders' Commission.	93
Nov. 11 (95)	<i>To the Ambassador in Brazil (tel.)</i> Information that copy of Brazilian plan has been transmitted to Bondholders' Commission.	93
Nov. 16 (97)	<i>To the Ambassador in Brazil (tel.)</i> Expectation that organizing group of Bondholders' Commission, which has been meeting with Brazilian representatives, will soon reach a decision as to what action may be taken.	94
Nov. 17 (98)	<i>To the Ambassador in Brazil (tel.)</i> Inquiry with regard to a press report concerning Brazilian Finance Minister's proposed scheme for servicing foreign debts.	94
Nov. 18 (115)	<i>From the Ambassador in Brazil (tel.)</i> Information that Finance Minister's plan referred to in press report was that transmitted in despatch No. 58, September 27.	94
Nov. 28 (23)	<i>To the American Delegation to the Seventh International Conference of American States (tel.)</i> For the Secretary of State (Chairman of the delegation): Information with regard to the meetings and problems of the Executive Committee of the Bondholders' Association.	95

BRAZIL

EFFORTS TO SECURE EQUITABLE TREATMENT FOR AMERICAN CREDITORS IN THE
SERVICING OF BRAZILIAN FEDERAL, STATE, AND MUNICIPAL DEBTS—Continued

Date and number	Subject	Page
1933 Dec. 11 (118)	<i>From the Ambassador in Brazil</i> Foreign Office note, November 29 (text printed), in answer to Department's analysis of debt plan as transmitted in instruction No. 23, October 24; annexed Finance Ministry memorandum (text printed) setting forth the reasons which induced the Brazilian Government to establish classification of loans into seven grades.	95

CHILE

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR
AMERICAN INTERESTS WITH RESPECT TO CHILEAN EXCHANGE RESTRICTIONS

1933 Jan. 25 (1366)	<i>From the Ambassador in Chile</i> Report on difficulties of American interests in Chile arising from Chilean exchange control regulations; representations to Foreign Minister, November 9, 1932, and January 24, 1933 (texts printed), expressing U. S. position; memorandum of conversation with the Finance Minister, January 25 (text printed), concerning currency problems.	103
Feb. 6 (1461)	<i>To the Ambassador in Chile</i> Instructions for further endeavor to obtain relief for frozen U. S. credits in Chile; observations as to possible good effect of reference to provisions of recent Spanish-Chilean compensation agreement concerning frozen Spanish credits.	111
Feb. 7 (1374)	<i>From the Ambassador in Chile</i> Intention to adopt policy of seeking specific action on individual issues, rather than to continue presenting exchange problems in a general way; notes to Foreign Minister (texts printed): February 3, advising of U. S. desire for final and definite disposition of several long-standing problems; January 31, requesting to be informed as to when conversations for a U. S.-Chilean commercial arrangement can begin.	112
Feb. 23 (1471)	<i>To the Ambassador in Chile</i> Commendation for Ambassador's effective presentation of the exchange problems affecting U. S. interests in Chile.	114
Feb. 28 (1397)	<i>From the Ambassador in Chile</i> Information concerning the problem of obtaining release for foreign currency deposits in Chilean banks, and review of negotiations with Foreign Office and Finance Minister leading to an arrangement for the release of small deposits; advice that arrangements are being concluded for the gradual release of the largest U. S. deposit, that of the Compañia Sud Americana de Explosivos.	115
Mar. 8 (1401)	<i>From the Ambassador in Chile</i> Report of exchange of correspondence with Foreign Office concerning efforts to obtain for U. S. commerce treatment equivalent to that granted other countries under compensation agreements; opinion as to probable developments in future negotiations.	117

CHILE

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR
AMERICAN INTERESTS WITH RESPECT TO CHILEAN EXCHANGE RESTRICTIONS—
Continued

Date and number	Subject	Page
1933		
April 3 (1483)	<i>To the Ambassador in Chile</i> Approval of views conveyed to the Foreign Minister as reported in despatch No. 1401 of March 8.	119
May 10 (1454)	<i>From the Ambassador in Chile</i> Foreign Minister's advice that a meeting of the Treaty Commission has been called and that the first order of business would be discussion of the means whereby frozen American credits could be released; Ambassador's opinion that if nothing definite results from this meeting, affirmative action must be taken by the Department.	120
May 12 (67)	<i>From the Ambassador in Chile (tel.)</i> Request for authorization to negotiate a commercial convention with the Chilean Government in order that U. S. interests may obtain relief from the prevailing exchange restrictions.	122
May 17 (1461)	<i>From the Ambassador in Chile</i> Additional suggestions in regard to the negotiation of a commercial convention.	123
May 19	<i>Memorandum by the Assistant Secretary of State</i> Conversation with the Chilean Chargé, who was informed that Ambassador Culbertson was acting on Department's instructions in his endeavor to secure favorable treatment for U. S. interests in Chile.	129
May 24 (25)	<i>To the Ambassador in Chile (tel.)</i> Advice that the United States is taking a strong stand at the London Economic Conference against the whole system of exchange controls, and that as long as there is any hope of achievement in this direction, it does not wish to enter into any commercial arrangement recognizing exchange control.	130
June 3 (76)	<i>From the Ambassador in Chile (tel.)</i> Foreign Office advice that if the principal nations at the London Conference agree to the elimination of compensation agreements, Chile will obligate itself to take a similar course.	130
June 7 (1481)	<i>From the Ambassador in Chile</i> Further comments and suggestions concerning negotiation of a compensation agreement as the only effective solution to the problem of liquidating frozen U. S. credits in Chile.	131
Sept. 6 (1535)	<i>From the Chargé in Chile</i> Report concerning adverse effect on American business in Chile of Chilean special arrangements with other nations; suggestion for more definite and specific U. S. policy to be followed in negotiations with the Chilean Government.	132
Oct. 25 (1560)	<i>From the Chargé in Chile</i> Information that the principal U. S. holders of blocked funds have succeeded in repatriating at least \$2,000,000 of these funds through private arrangements with the Chilean Government.	135

CHILE

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR
AMERICAN INTERESTS WITH RESPECT TO CHILEAN EXCHANGE RESTRICTIONS—
Continued

Date and number	Subject	Page
1933 Nov. 1 (1550)	<i>To the Chargé in Chile</i> Instructions to suggest to the Chilean Government that a provisional agreement in regard to the allotment of exchange be concluded pending the opportunity to negotiate a definitive trade agreement; suggestion of possible bases upon which exchange might be allotted in accordance with most-favored-nation treatment; draft (text printed) of the proposed provisional agreement.	137
Nov. 18 (1582)	<i>From the Chargé in Chile</i> Report of various Foreign Office objections to the proposed agreement; suggestion that in further negotiations the United States might find it desirable to ask for certain concessions to take care of frozen credits and current needs rather than to insist on allotment of exchange at most-favored-nation rate, and should endeavor to obtain assurances with respect to other related problems.	142
Nov. 29 (51)	<i>To the Ambassador in Chile (tel.)</i> Instructions to press for the general principles contained in the draft agreement, but disapproval of proposals suggested by Chargé in despatch No. 1582 of November 18; request for Ambassador's views with regard to the relation between the type of arrangement proposed and special arrangements which the copper or nitrate companies may have made with the Chilean Government.	145
Nov. 29 (5)	<i>From the Ambassador in Chile</i> Advice that the French Minister has suggested to the Chilean Government that some arrangement for the resumption of service on Chilean loans floated in France be embodied in the French-Chilean compensation treaty.	146
Dec. 2 (108)	<i>From the Ambassador in Chile (tel.)</i> Advice that draft agreement has been presented formally to the Chilean Government; information concerning disposition of exchange arising from copper and nitrate sales in the United States and in other countries.	147
Dec. 9 (109)	<i>From the Ambassador in Chile (tel.)</i> Indication by the Under Secretary of Foreign Affairs that the Chilean Government considers the U. S. agreement unacceptable; hope for more constructive developments in later conversations with the Acting Foreign Minister.	147
Dec. 13 (54)	<i>To the Ambassador in Chile (tel.)</i> Request for brief telegraphic report of Ambassador's interview with Acting Foreign Minister.	148
Dec. 13 (110)	<i>From the Ambassador in Chile (tel.)</i> Report of interview with Acting Foreign Minister.	148
Dec. 14 (111)	<i>From the Ambassador in Chile (tel.)</i> Further discussion with the Under Secretary of Foreign Affairs; opinion that some progress has been made.	149
Dec. 15 (18)	<i>From the Ambassador in Chile</i> Detailed report of developments in negotiations with Foreign Office officials, who requested information concerning amount of American frozen credits and balance of trade between United States and Chile.	149

CHILE

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR
AMERICAN INTERESTS WITH RESPECT TO CHILEAN EXCHANGE RESTRICTIONS—
Continued

Date and number	Subject	Page
1933 Dec. 27 (25)	<i>From the Ambassador in Chile</i> Report of tentative Chilean suggestion to remove all exchange restrictions from U. S. commerce; views regarding the advantages of such a plan.	151

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE LIQUIDATION OF
COSACH AND THE REORGANIZATION OF THE CHILEAN NITRATE INDUSTRY

1933 Jan. 2 (1)	<i>From the Chargé in Chile (tel.)</i> Advice of Chilean Government decree which cancels decrees of incorporation of Cosach and throws the company into liquidation, and of plans for special liquidation proceedings; information that action has aroused apprehensions as to good faith of the Chilean Government and possibility of eventual dissipation of foreign capital.	154
Jan. 3 (2)	<i>From the Chargé in Chile (tel.)</i> Information concerning legislation providing for liquidation procedure, which, however, contains no indication of plans; possibility that the British may feel it a disadvantage to continue to maintain solidarity with U. S. interests.	155
Jan. 4 (3)	<i>From the Chargé in Chile (tel.)</i> Advice that President of Cosach filed a formal protest with the President of Chile against the decree of annulment; company's intention not to oppose Government's action but to cooperate in liquidation proceedings.	155
Jan. 5	<i>Memorandum by the Under Secretary of State of a Conversation With the British Ambassador, January 5, 1933</i> Receipt of a memorandum from the British Ambassador (<i>infra</i>), explaining the attitude of the British bankers with regard to dissolution of Cosach.	156
Jan. 5	<i>From the British Embassy</i> Memorandum of a conversation between the Chilean Finance Minister and British bankers clarifying the British position with regard to the Chilean Government's intimation that the dissolution of Cosach had the backing of British bankers.	156
Jan. 7 (7)	<i>From the Chargé in Chile (tel.)</i> Opinion that Chilean Government has a definite plan for procedure in the liquidation of Cosach; suggestion for a talk with the Finance Minister in order to ascertain what changes in capital structure are contemplated.	157
Jan. 9 (5)	<i>To the Chargé in Chile (tel.)</i> Belief that no official approach in the matter of Cosach liquidation is necessary at this time.	157
Jan. 10 (12)	<i>From the Chargé in Chile (tel.)</i> Information that Chilean President's reply to Cosach President's letter of protest has been published; publication also of a new bill to Congress extending the powers of the liquidators.	158

CHILE

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE LIQUIDATION OF
COSACH AND THE REORGANIZATION OF THE CHILEAN NITRATE INDUSTRY—CON.

Date and number	Subject	Page
1933		
Jan. 31 (19)	<i>From the Ambassador in Chile (tel.)</i> Conversations with President and Ministers of Foreign Affairs and Finance, who agreed to a conference between the Chilean Government and U. S. interests; publication of draft law of liquidation, which contains provisions relating to security of 60-peso charge in violation of contractual rights; opinion that formal representations must be made.	159
Feb. 1 (20)	<i>From the Ambassador in Chile (tel.)</i> Information that the proposed liquidation law will result in advantage to certain British interests.	160
Feb. 2 (11)	<i>To the Ambassador in Chile (tel.)</i> Advice that Department will consider the advisability of making formal representations, if the proposed conference between the Chilean Government and private interests does not result in agreement and it appears probable that the law will be passed.	160
Feb. 6 (26)	<i>From the Ambassador in Chile (tel.)</i> Information with regard to the conversation held between Chilean officials and representatives of U. S. interests; advice that project of law affecting 60-peso charge was discussed and will be held in abeyance for the present.	161
Feb. 7 (27)	<i>From the Ambassador in Chile (tel.)</i> Report of progress in conversations between Chilean and U. S. representatives.	161
Feb. 10 (1463)	<i>To the Ambassador in Chile</i> Approval of position taken by Ambassador in conversations with President and Finance Minister.	162
Mar. 15 (45)	<i>From the Ambassador in Chile (tel.)</i> Advice that Chilean Government is considering a new proposal which would affect adversely the existing 60-peso export tax on nitrate and would restore the old export tax for benefit of Chilean finances.	162
Mar. 16 (46)	<i>From the Ambassador in Chile (tel.)</i> Information that Finance Minister has ordered restoration of the export tax, thus suspending 60-peso charge; Foreign Minister's promise of memorandum on the subject; request for authorization to make formal representations insisting upon withdrawal of the orders.	162
Mar. 17	<i>Memorandum by the Assistant Secretary of State</i> Conversations with the Chilean Chargé concerning reported abolition of the 60-peso export tax; U. S. hope that situation can be worked out on a cooperative basis.	164
Mar. 17 (47)	<i>From the Ambassador in Chile (tel.)</i> Opinion that Foreign Minister's memorandum, when completed, will contribute nothing to solution of the export tax problem, and belief that U. S. action need not be delayed therefor.	165
Mar. 17 (48)	<i>From the Ambassador in Chile (tel.)</i> Receipt of Foreign Minister's memorandum, and information with regard to substance.	166

CHILE

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE LIQUIDATION OF COSACH AND THE REORGANIZATION OF THE CHILEAN NITRATE INDUSTRY—CON.

Date and number	Subject	Page
1933 Mar. 20 (49)	<i>From the Ambassador in Chile (tel.)</i> Advice that, unless the United States takes a firm stand with regard to the nitrate situation, the same arbitrary action might be extended to other U. S. interests in Chile.	166
Mar. 23 (19)	<i>To the Ambassador in Chile (tel.)</i> Instructions to present an <i>aide-mémoire</i> (text printed), making representations concerning Chilean disregard for international obligations, specifically with regard to suppression of 60-peso charge; suggestion that U. S. interests might consider the possibility of arbitration under article 35 of the basic Cosach law of 1930.	167
Mar. 24 (50)	<i>From the Ambassador in Chile (tel.)</i> Information that <i>aide-mémoire</i> has been presented to Foreign Minister; advice that Department's suggestion for arbitration could not be realized owing to the Chilean Supreme Court's inability to be an impartial arbitrator under present conditions; assumption that Department intends to make no public statement for the time being.	168
Mar. 25 (20)	<i>To the Ambassador in Chile (tel.)</i> Advice that Department has neither made nor intends to make a public statement concerning the nitrate question.	169
Mar. 25 (52)	<i>From the Ambassador in Chile (tel.)</i> Discussion with Foreign Minister concerning publicity question; interview with President, who apparently was not aware of the true situation and who was given a full explanation.	170
Apr. 3 (53)	<i>From the Ambassador in Chile (tel.)</i> Receipt of Foreign Minister's memorandum (<i>infra</i>), in reply to U. S. <i>aide-mémoire</i> of March 24.	170
Apr. 3 (1956)	<i>From the Chilean Ministry for Foreign Affairs to the American Embassy in Chile</i> Chilean position denying international obligation in Cosach liquidation and arguing that interested parties should have initiated judicial action in Chilean courts before resorting to diplomatic action.	172
Apr. 4	<i>Bases of a Possible Plan for the Reorganization of the Nitrate Industry</i> Detailed list of bases which developed from conferences between the Guggenheim representative and members of the Liquidating Commission.	180
Apr. 13 (2221)	<i>From the Chilean Ministry for Foreign Affairs to the American Embassy in Chile</i> Text of resolution adopted by the Liquidating Commission concerning suspension of the 60-peso charge.	182
Apr. 14 (56)	<i>From the Ambassador in Chile (tel.)</i> Information that text of the Liquidating Commission's resolution has been submitted to the four interested missions.	184
Apr. 22 (58)	<i>From the Ambassador in Chile (tel.)</i> Advice that Finance Minister appears favorably disposed toward the proposed reorganization plan for the nitrate industry, and that Cosach President is willing to discuss certain stipulations attached to the plan by the Finance Minister.	185

CHILE

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE LIQUIDATION OF COSACH AND THE REORGANIZATION OF THE CHILEAN NITRATE INDUSTRY—CON.

Date and number	Subject	Page
1933 Apr. 28 (22)	<i>To the Ambassador in Chile (tel.)</i> Request for Ambassador's comment on questions pertinent to the proposed reorganization plan.	185
May 10 (1458)	<i>From the Ambassador in Chile</i> Foreign Ministry memorandum, May 10, transmitting Finance Minister's plan for reorganization of the nitrate industry, April 27 (texts printed), presented also to British, German, and Netherlands representatives.	186
May 23 (69)	<i>From the Ambassador in Chile (tel.)</i> Opinion that the Chilean Government has, by the President's statements made before the opening session of Congress, now publicly and deliberately rejected the representations made by the interested Governments; suggestion that reply be made to Chilean communications and given publicity in order to place on record U. S. position in regard to the principle involved.	190
May 27 (27)	<i>To the Ambassador in Chile (tel.)</i> Instructions to inform Foreign Minister orally and informally of the position of the principal creditor interests involved in the nitrate situation that they cannot be expected to agree to the elimination of their contractual guarantee unless it is replaced by an adequate substitute.	191
June 7 (1480)	<i>From the Ambassador in Chile</i> Transmittal of project of law based on Finance Minister's reorganization plan of April 27 which, if accepted by private interests, would satisfy practical questions but which would not, however, settle question of principle raised by foreign governments.	192
June 14	<i>From Messrs. Sullivan & Cromwell</i> Protest to the Chilean Government by certain American banking firms (text printed) on behalf of bondholders of the Anglo-Chilean Consolidated Nitrate Corporation, against proposed reorganization bill; request that Department support the protest with appropriate action.	193
June 24 (33)	<i>To the Ambassador in Chile (tel.)</i> Instructions to transmit latest available text of bill for reorganizing the nitrate industry, and request that Department be kept advised of any changes in text.	196
June 26 (80)	<i>From the Ambassador in Chile (tel.)</i> Information concerning eighth and latest draft reorganization bill.	196
June 28 (81)	<i>From the Ambassador in Chile (tel.)</i> Information that in compliance with U. S. views, Finance Minister has stated that article 30 of the eighth draft text will be eliminated.	197
June 28 (1512)	<i>To the Ambassador in Chile</i> Transmittal of correspondence between the Department and Sullivan & Cromwell; instructions to make informal request that an opportunity be given to the representative of the Compañía Salitrera Anglo-Chilena and the holders of its securities to present their views with regard to the reorganization bill now before the Chilean Congress.	197

CHILE

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE LIQUIDATION OF
COSACH AND THE REORGANIZATION OF THE CHILEAN NITRATE INDUSTRY—CON.

Date and number	Subject	Page
1933 July 5 (1495)	<i>From the Ambassador in Chile</i> Information that tenth draft of reorganization bill (text printed) has been submitted to Congress.	197
Aug. 1 (1507)	<i>From the Ambassador in Chile</i> Advice that representations made to the Chilean Government by the President of the Anglo-Chilena have resulted in minor modifications in the project of law; informal U. S. representation to the Foreign Minister on the subject.	212
Nov. 8 (1576)	<i>From the Chargé in Chile</i> Information that nitrate bill has been approved by the Chilean Lower House; advice that the bill raises questions of broad policy which are of special concern to the foreign nitrate interests.	213
Dec. 6 (11)	<i>From the Ambassador in Chile</i> Report that the nitrate law is now being debated in the Senate, and that indications are that the law will be fairly acceptable to private interests when it reaches its final form; British interest in the passage of satisfactory nitrate legislation.	215
1934 Jan. 8 (2)	<i>From the Ambassador in Chile (tel.)</i> Comment of a representative of U. S. interests with regard to the nitrate bill as finally approved by the Chilean Congress.	216

COLOMBIA

UNPERFECTED RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES
AND COLOMBIA, SIGNED DECEMBER 15, 1933

1933 July 12 (63)	<i>To the Chargé in Colombia (tel.)</i> Information that suggestion was made to Colombian Minister, Fabio Lozano, for U. S.-Colombian exploratory conversations with regard to the eventual negotiation of a reciprocal trade agreement; instructions to bring matter informally to the attention of the Foreign Minister and report on his comments.	217
July 13 (61)	<i>From the Chargé in Colombia (tel.)</i> Foreign Minister's willingness to negotiate a trade agreement.	217
July 17 (64)	<i>From the Chargé in Colombia (tel.)</i> President Olaya's promise of complete cooperation in proposed treaty negotiation; his desire to send technical advisers to assist Colombian Minister, and inquiry as to the time set for beginning the conversations.	218
July 20 (65)	<i>To the Chargé in Colombia (tel.)</i> Advice that Department will be ready to begin conversations by the time Colombian technical advisers arrive.	218
July 21 (66)	<i>From the Chargé in Colombia (tel.)</i> Olaya's request for a memorandum outlining general points to be discussed in conversations in order that expert advisers may be appointed.	218

COLOMBIA

UNPERFECTED RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES
AND COLOMBIA, SIGNED DECEMBER 15, 1933—Continued

Date and number	Subject	Page
1933		
July 22 (66)	<i>To the Chargé in Colombia (tel.)</i> Information that experts should be prepared to discuss customs reductions which could be accorded by Colombia to American products in return for U. S. commitments to keep leading Colombian products on the free list.	218
July 26 (5741)	<i>From the Chargé in Colombia</i> President Olaya's decision to hold meetings with the Finance and Public Credit Ministers and the Foreign Minister in order to determine what preferential treatment Colombia would be prepared to grant to U. S. products; Olaya's desire to avoid necessity of submission of the proposed agreement to the Colombian Congress for ratification.	219
Aug. 2 (69)	<i>From the Chargé in Colombia (tel.)</i> Advice that Pomponio Guzman, former Finance Minister, and an official of the Finance Ministry not yet designated, will assist Lozano and will arrive in Washington in about two weeks.	220
Aug. 14 (73)	<i>From the Chargé in Colombia (tel.)</i> Information that Lozano has been authorized to enter into exploratory conversations pending arrival of the advisers.	220
Aug. 15 (5776)	<i>From the Chargé in Colombia</i> Report and comments on a petition submitted on August 8 to Olaya and the Finance and Public Credit Ministers by the National Federation of Industrialists, indicating concern of Colombian manufacturers lest proposed trade agreement affect them adversely.	221
Aug. 19 (74)	<i>From the Chargé in Colombia (tel.)</i> Advice that Francisco Restrepo Plata and Arturo Hernández, members of the Supreme Customs Tribunal, are being appointed advisers in lieu of Guzman and will leave shortly.	222
Aug. 22	<i>Statement by the Acting Secretary of State Issued to the Press</i> Announcement that preliminary informal conversations concerning a trade agreement have been initiated with the Colombian Minister.	222
Aug. 22	<i>Memorandum Handed to the Colombian Minister by the Assistant Secretary of State, August 22, 1933</i> Draft of reciprocal trade agreement (text printed) designed to serve as basis for future agreement; explanation of trade figures with regard to schedules attached to the agreement.	222
Aug. 25 (76)	<i>From the Chargé in Colombia (tel.)</i> Advice that Miguel Lopez Pumarejo, New York representative of the National Federation of Coffee Growers, is being appointed additional adviser, and that other experts will arrive in New York September 5.	225
Aug. 28	<i>Memorandum by the Colombian Minister</i> Colombian desire that treaty will not prejudice its incipient economic system; comment on U. S. figures submitted to Colombia.	226
Aug. 28 (5816)	<i>From the Chargé in Colombia</i> Comments by President Olaya on Department's memorandum of August 22 and attached draft trade agreement.	227

COLOMBIA

UNPERFECTED RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES
AND COLOMBIA, SIGNED DECEMBER 15, 1933—Continued

Date and number	Subject	Page
1933 Undated	<i>Memorandum Left at the Department of State by the Colombian Minister, September 2, 1933</i> Suggestions and comments pertaining to the schedules of trade figures submitted by the United States to the Colombian Government with the draft trade agreement on August 22; Colombian counterdraft of trade agreement (text printed).	228
Sept. 5 (5832)	<i>From the Chargé in Colombia</i> President Olaya's viewpoint with regard to the possibility of reducing Colombian import duties on the list of articles contained in schedule 1 annexed to the U. S. draft agreement.	234
Undated	<i>American Redraft of the Reciprocal Trade Agreement Handed to the Colombian Minister by the Assistant Secretary of State, October 26, 1933</i> Text of proposed trade agreement between the United States and Colombia.	235
Nov. 2	<i>Memorandum by the Assistant Chief of the Treaty Division</i> Detailed account of the first meeting of U. S. and Colombian experts for the purpose of negotiating a reciprocal trade agreement.	238
Undated	<i>Draft of Article IV Submitted by the Colombian Representatives, November 17, 1933</i> Draft text of article IV, regarding tax exemption on imported articles and imposition of rates and charges for transportation.	241
Nov. 20 (76)	<i>To the Chargé in Colombia (tel.)</i> Request for information concerning the law by which Colombian municipal or departmental taxes are levied, and with regard to the highest taxes now imposed on general classes of goods as set forth in schedules 1 and 2.	242
Nov. 22 (77)	<i>To the Chargé in Colombia (tel.)</i> Instructions to inform appropriate Colombian authorities and American petroleum interests of the order of the Secretary of the Interior dated September 28 with regard to the limitation of petroleum imports into the United States.	243
Nov. 23 (95)	<i>From the Chargé in Colombia (tel.)</i> Information concerning Colombian municipal import taxes requested in telegram No. 76, November 20.	243
Nov. 24 (5971)	<i>From the Chargé in Colombia</i> Report of conversation with Acting Foreign Minister Carreno and H. A. Metzger, executive representative of the Tropical Oil Company and the Andian National Corporation, concerning the nature of the order by the Secretary of the Interior restricting petroleum imports into the United States.	244
Nov. 28 (5980)	<i>From the Chargé in Colombia</i> Explanation that oil companies in Colombia are interested in obtaining a reduction of American tariff rates on petroleum in connection with proposed new trade agreement, rather than an increase in import quota.	245
Dec. 4	<i>To President Roosevelt</i> Transmittal of proposed draft trade agreement with Colombia with recommendation that it would be advantageous to United States to sign; request for approval. (Footnote: President's approval, December 6.)	246

COLOMBIA

UNPERFECTED RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES
AND COLOMBIA, SIGNED DECEMBER 15, 1933—Continued

Date and number	Subject	Page
1933 Dec. 15	<i>Joint Statement by the Acting Secretary of State and the Colombian Minister, Issued to the Press</i> Announcement that the Acting Secretary of State and the Colombian Minister have signed a reciprocal trade agreement, and explanation of provisions of agreement.	248
Dec. 15	<i>Reciprocal Trade Agreement Between the United States of America and the Republic of Colombia</i> Text of agreement, signed at Washington. (Footnote: Information that agreement never came into force, but was replaced by a new agreement signed September 13, 1935.)	249

REPRESENTATIONS TO THE PRESIDENT OF COLOMBIA AGAINST BILLS FOR THE
SUSPENSION OF DEBT SERVICE ON EXTERNAL OBLIGATIONS OF THE GOVERNMENT
OF COLOMBIA

1933 June 12 (55)	<i>To the Chargé in Colombia (tel.)</i> Instructions to discuss with President Olaya the possibility of Colombia's continuing full cash interest payments on the National Government funded debt and guaranteed agricultural mortgage bonds, which payments were suspended in April owing to military expenditures.	254
June 19 (58)	<i>From the Chargé in Colombia (tel.)</i> Discussion with President Olaya of Colombian financial situation; advice that Olaya is considering refunding entire foreign debt and has mentioned the possibility of using proposed American semiofficial bondholders' committee in refunding operations; inquiry with regard to present status of committee.	255
June 21 (5668)	<i>From the Chargé in Colombia</i> Advice concerning the Colombian Government's plan with regard to the issuance of interest-bearing scrip during the current year for payment of interest on its external funded debt; further remarks by Olaya regarding possible refunding operations.	256
June 24 (565)	<i>To the Chargé in Colombia</i> Information with regard to the present status of the proposed American semiofficial bondholders' committee.	256
June 26 (5682)	<i>From the Chargé in Colombia</i> Information regarding Colombian Government's announcement of plan to be followed in connection with payment of interest on its external funded debt.	257
Oct. 28 (84)	<i>From the Chargé in Colombia (tel.)</i> Information that a bill providing for suspension of debt service is under consideration in the Colombian legislature. (Footnote: Information that House passed bill providing for suspension of service on external funded debt but not on short-term banking loan.)	257

COLOMBIA

REPRESENTATIONS TO THE PRESIDENT OF COLOMBIA AGAINST BILLS FOR THE
SUSPENSION OF DEBT SERVICE ON EXTERNAL OBLIGATIONS OF THE GOVERNMENT
OF COLOMBIA—Continued

Date and number	Subject	Page
1933		
Oct. 31 (73)	<i>To the Chargé in Colombia (tel.)</i> Instructions to express to President Olaya Department's viewpoint with regard to passage of the bill providing for suspension of debt service; information concerning White House announcement of a project for the formation of a central bondholders' organization.	258
Nov. 5 (86)	<i>From the Chargé in Colombia (tel.)</i> Olaya's opposition to suspension of foreign debt service either by legislation or by failure to include necessary appropriations in the budget; his opinion that bill will be either defeated or amended in the Senate.	259
Nov. 11 (88)	<i>From the Chargé in Colombia (tel.)</i> Report of developments in Colombian House of Representatives and Senate with regard to appropriation for debt service in the legislative budget; advice that debt service suspension bill proper appears to have been shelved in the Senate; information with regard to a proposed bill providing for the discharge of obligations in foreign currency.	259
Nov. 13 (89)	<i>From the Chargé in Colombia (tel.)</i> Information concerning further provisions and progress of the bill pertaining to foreign currency obligations.	260
Nov. 13 (75)	<i>To the Chargé in Colombia (tel.)</i> Hope that President Olaya will use his influence to have appropriation for foreign debt service restored in the budget bill, and inquiry as to probable final passage of bill; hope also that Olaya will oppose currency bill referred to in telegram No. 88, November 11.	260
Nov. 14 (90)	<i>From the Chargé in Colombia (tel.)</i> Successful efforts of President Olaya and Finance Minister in securing partial restoration by the Senate of foreign debt service items in the budget. Intention to see Olaya with regard to budget and debt bill.	260
Nov. 16 (91)	<i>From the Chargé in Colombia (tel.)</i> Extension of Congressional sessions to November 21 by Executive decree; information that House has begun debate on the debt bill; Olaya's unwillingness to discuss matter.	261
Nov. 20 (92)	<i>From the Chargé in Colombia (tel.)</i> Advice that debt bill passed House in third debate with amendments making reconsideration by the Senate necessary. (Footnote: Information that Senate passed bill as amended by the House before adjournment of Congress on November 21.)	261
Nov. 23 (78)	<i>To the Chargé in Colombia (tel.)</i> Advice that <i>New York Times</i> article reports a provision in debt bill relating to payment of duties in gold; request for information regarding the provision.	262
Nov. 23 (94)	<i>From the Chargé in Colombia (tel.)</i> Advice that <i>New York Times</i> report is a complete misinterpretation of certain provisions of the debt bill, since the bill does not affect payment of duties.	262

COLOMBIA

REPRESENTATIONS TO THE PRESIDENT OF COLOMBIA AGAINST BILLS FOR THE
SUSPENSION OF DEBT SERVICE ON EXTERNAL OBLIGATIONS OF THE GOVERNMENT
OF COLOMBIA—Continued

Date and number	Subject	Page
1933 Nov. 23 (96)	<i>From the Chargé in Colombia (tel.)</i> Article 2 (text printed) of the debt bill, relating to foreign currency obligations and obligations contracted in Colombian gold coin; report that both the United Fruit Company and the National City Bank desire Legation's assistance in efforts to obtain Olaya's veto of the bill; advice of informal discussions of bill with Foreign Minister and inquiry as to what further steps Department wishes to take.	262
Nov. 25 (79)	<i>To the Chargé in Colombia (tel.)</i> Instructions to endeavor to obtain Olaya's veto of article 2 of the debt bill and also his veto of the budget bill, since the latter fails to include any appropriation for funded debt services.	263
Nov. 30 (100)	<i>From the Minister in Colombia (tel.)</i> Information that President Olaya intends to sign the debt bill, pointing out at the same time the advisability of amending the act at the next session of Congress.	264
Dec. 5 (9)	<i>From the Minister in Colombia</i> Information that President Olaya signed the debt bill on November 30 and afterwards sent a message to the President of the Senate concerning proposal to amend law at next session of Congress; information concerning plan of commercial banks and other companies to take action in the Colombian courts against the debt law, particularly in regard to the apparent unconstitutionality of article 2.	264

COSTA RICA

INFORMAL SUGGESTIONS OF THE UNITED STATES WITH RESPECT TO THE CANAL
PROVISIONS OF THE PROPOSED TREATY OF COMMERCE AND NAVIGATION BETWEEN
COSTA RICA AND ITALY

1932 Mar. 15 (174)	<i>To the Minister in Costa Rica</i> Authorization to make informal and oral suggestions to Costa Rican officials, if deemed desirable, concerning provisions of article 20 of proposed treaty between Costa Rica and Italy which might conceivably interfere with future negotiations between the United States and Costa Rica with regard to the projected Nicaragua Canal.	266
Mar. 29 (836)	<i>From the Minister in Costa Rica</i> Opinion that, since in all probability no treaties of commerce, navigation, and consular rights will be entered into by the new regime shortly to assume office, no U. S. representations would be necessary at this time.	267
1933 Jan. 5 (1256)	<i>From the Minister in Costa Rica</i> Information that a temporary customs agreement has been signed between Costa Rica and Italy granting most-favored-nation customs privileges to the two countries.	267

COSTA RICA

INFORMAL SUGGESTIONS OF THE UNITED STATES WITH RESPECT TO THE CANAL PROVISIONS OF THE PROPOSED TREATY OF COMMERCE AND NAVIGATION BETWEEN COSTA RICA AND ITALY—Continued

Date and number	Subject	Page
1933 June 8 (1485)	<i>From the Minister in Costa Rica</i> Foreign Minister's advice that Costa Rican treaty with Italy is to be signed soon; his opinion that possible elimination of article 20 as suggested by United States could appropriately be considered at the end of 5 years, when the treaty will come up for renewal or replacement. (Footnote: Information that treaty was signed on June 14.)	268

CUBA

REVOLUTION IN CUBA—EFFORTS OF THE UNITED STATES TO AID IN RESTORING POLITICAL PEACE

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT

1933 Jan. 5 (1)	<i>From the Ambassador in Cuba (tel.)</i> Informal U. S. representations with respect to treatment of political prisoners.	270
Jan. 9 (3)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with President Machado, who promised that in future the lives of prisoners would be respected.	271
Jan. 10	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Cuban Chargé concerning disturbances in Cuba and repressive measures of Cuban Government.	271
Feb. 28 (1532)	<i>From the Ambassador in Cuba</i> Report of further disturbances indicative of the state of unrest prevailing in Cuba.	272
Mar. 9 (15)	<i>From the Ambassador in Cuba (tel.)</i> Information that the various groups of Cuban oppositionists in Miami are completing plans for the formation of one united committee of the opposition, and that negotiations are now being carried on to include in this committee representatives of both the ABC and students in Habana.	274
Apr. 8 (1574)	<i>From the Chargé in Cuba</i> Further report of killings, arrests, and bomb explosions occurring in Habana and Santa Clara.	274
Apr. 15 (1582)	<i>From the Chargé in Cuba</i> Occurrence of numerous bomb explosions in different parts of Habana; report of the shooting by police of two brothers named Valdez.	275
Apr. 17 (1583)	<i>From the Chargé in Cuba</i> Further details concerning the shooting of the Valdez brothers.	276
Apr. 20 (20)	<i>To the Chargé in Cuba (tel.)</i> Desire of President Roosevelt to appoint Sumner Welles as U. S. Ambassador to Cuba; instructions to ascertain whether appointment would be agreeable to the Cuban Government.	277

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
Apr. 20 (34)	<i>From the Chargé in Cuba (tel.)</i> Information that the appointment of Mr. Welles is agreeable to the Cuban Government.	278
Undated	<i>Statement by Mr. Sumner Welles, Assistant Secretary of State</i> Acceptance of the position of U. S. Ambassador to Cuba.	278
May 1 (1)	<i>To the Appointed Ambassador in Cuba</i> Background information and instructions for representations to President Machado concerning U. S. desire to offer its friendly mediatory services between President Machado and opposition elements for a political truce and ultimate election of a constitutional government; instructions also to discuss economic situation, including U. S. desire to consider the bases for a U. S.-Cuban reciprocal trade agreement.	279
May 6 (44)	<i>To the Minister in Colombia (tel.)</i> For Caffery from Under Secretary of State Phillips: Request that Mr. Caffery fill the vacancy of Assistant Secretary of State with a view to becoming Ambassador to Cuba upon the termination of Mr. Welles' period of Ambassadorship there.	286
May 7 (48)	<i>From the Minister in Colombia (tel.)</i> For Phillips from Caffery: Acceptance of arrangement referred to in telegram No. 44, May 6.	286
May 8 (38)	<i>From the Chargé in Cuba (tel.)</i> Advice that Ambassador Welles has arrived in Habana.	286
May 11 (39)	<i>From the Ambassador in Cuba (tel.)</i> Information that letter of credence has been presented.	287
May 13 (43)	<i>From the Ambassador in Cuba (tel.)</i> Report of conversations with the Secretary of State and President Machado during which representations were made in accordance with instruction No. 1, May 1; Ambassador's suggestions as to the future policy to be pursued in Cuba.	287
May 13 (44)	<i>From the Ambassador in Cuba (tel.)</i> Request that Cuban Ambassador be informed that, following conclusion of a general discussion of economic questions in Washington, the American Ambassador in Cuba will be authorized to enter into a preliminary and tentative consideration of the bases for a reciprocal trade agreement between the United States and Cuba.	290
May 16 (46)	<i>From the Ambassador in Cuba (tel.)</i> Intention to commence informal conversations shortly covering possible bases for future negotiation of a commercial agreement.	291
May 22 (53)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Press reports that the President intends to make a statement regarding the situation in Cuba; suggestion that statement will be more beneficial at a later date, in view of current representations being made to obtain the cooperation of opposition leaders.	292

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
May 22 (55)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning representations made to the Secretary of State resulting in promise of an official investigation with regard to atrocity committed by a detachment of the Guardia Rural, commanded by Major Ortiz, upon three employees of the American-owned Cuba Co.	292
May 25 (58)	<i>From the Ambassador in Cuba (tel.)</i> Informal conferences with the Secretaries of State, Treasury, and Agriculture regarding the concessions which the Cuban Government would be willing to make to the United States in a reciprocal trade agreement.	293
May 25 (60)	<i>From the Ambassador in Cuba (tel.)</i> Information that official investigation of the atrocity referred to in telegram No. 55, May 22, has confirmed the facts as reported; President Machado's assurance that Ortiz would be punished.	294
May 25 (61)	<i>From the Ambassador in Cuba (tel.)</i> Report of conference with Dr. de la Torriente, prominent member of the group of opposition leaders, during which the possibility of a solution of the Cuban political problem was discussed in general terms; advice of tentative understanding reached among other opposition leaders.	295
May 29 (65)	<i>From the Ambassador in Cuba (tel.)</i> Advice of the appointment of General Alberto Herrera as Secretary of State ad interim in the absence of Ferrara.	296
May 29 (66)	<i>From the Ambassador in Cuba (tel.)</i> Receipt of assurances from both President Machado and opposition representative that mediation by U. S. Ambassador is desired; plans for discussion of general bases of an agreement as soon as cooperation of a sufficient number of opposition groups is assured.	296
June 2 (68)	<i>From the Ambassador in Cuba (tel.)</i> Discussion with President Machado regarding plans for reopening the university; his request for the services of an American expert to study the plans and to draw up a new charter for the university, making it an independent organization instead of government-controlled.	298
June 2 (69)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with President Machado during which Ambassador's friendly and unofficial mediation was offered between political groups supporting the present Cuban administration and those factions opposing it; Ambassador's suggestions as to reformation of the Cuban electoral code and constitution.	299
June 6 (70)	<i>From the Ambassador in Cuba (tel.)</i> President Machado's request that Howard Lee McBain, Dean of Graduate Faculties of Columbia University, be extended an official invitation to come to Cuba to formulate recommendations for amendments to the electoral code and to undertake the drafting of a charter for an independent university.	301
(Footnote: Arrival of Professor McBain in Habana June 30.)		

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
June 6 (72)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with President Machado, during which it was suggested that he make a public statement of his decision to adopt a policy of conciliation, based upon constitutional reform and restoration of the position of Vice President.	302
June 8 (74)	<i>From the Ambassador in Cuba (tel.)</i> Suggestion as to importance of making official announcement as soon as possible of proposed negotiations for revision of U. S.-Cuban commercial convention.	304
June 8 (75)	<i>From the Ambassador in Cuba (tel.)</i> Summary of President Machado's official declaration of a policy of conciliation and political reform.	305
June 8 (41)	<i>To the Ambassador in Cuba (tel.)</i> Authorization to proceed with negotiations for revision of the commercial treaty with Cuba, and information that Department will make a public announcement concerning these instructions.	306
June 10 (79)	<i>From the Ambassador in Cuba (tel.)</i> Report of Dr. de la Torriente's statement, in which he expressed desire that Ambassador Welles' mediation be accepted by opposition groups; information that Dr. de la Torriente has succeeded in uniting a group comprising outstanding members of all the opposition groups.	306
June 14 (82)	<i>From the Ambassador in Cuba (tel.)</i> Further information concerning efforts being made to obtain the cooperation of General Menocal and members of the New York junta.	307
June 16 (85)	<i>From the Ambassador in Cuba (tel.)</i> Information that a written memorandum was handed Ambassador Welles by the directors of the ABC accepting his friendly mediation between the Cuban Government and the opposition factions.	308
June 16 (86)	<i>From the Ambassador in Cuba (tel.)</i> Information that formal acceptance of mediation has been received from the directors of the OCRR and from the organization composed of the high-school professors; advice that General Menocal's acceptance is conditional upon whatever action may be taken by the New York junta.	309
June 20 (4)	<i>To President Roosevelt, at Sea (tel.)</i> Welles' belief that a message from President Roosevelt delivered at the outset of proposed discussions between Cuban political groups would be most beneficial; suggested draft (text printed) for such message to Welles.	310
June 21 (49)	<i>To the Ambassador in Cuba (tel.)</i> Authorization for suggested message by President Roosevelt (text printed).	311
June 21 (90)	<i>From the Ambassador in Cuba (tel.)</i> University delegates' formal acceptance of Ambassador Welles' tender of good offices.	311

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933 June 22 (91)	<i>From the Ambassador in Cuba (tel.)</i> Interview with President Machado, wherein he was advised of the conversations held with representatives of the opposition factions; information that Machado will select three delegates to represent the Government in the mediation negotiations.	313
June 23 (94)	<i>From the Ambassador in Cuba (tel.)</i> Information that certain of the opposition factions will publish in the United States declarations of the reasons which have caused them to accept the Ambassador's tender of good offices; request that Department issue no opinion regarding such declarations.	314
June 26 (97)	<i>From the Ambassador in Cuba (tel.)</i> Information that University Students' Council is planning to propose the inclusion of representatives of two Latin American Republics in the mediation proceedings; attitude concerning proposal.	315
June 30 (101)	<i>From the Ambassador in Cuba (tel.)</i> Appointment of delegates by President Machado and the opposition factions; information that formal mediation proceedings will commence July 1.	316
July 1 (103)	<i>From the Ambassador in Cuba (tel.)</i> Information that formal proceedings have begun and plans have been made for further meetings between the delegates.	317
July 7 (54)	<i>To the Ambassador in Cuba (tel.)</i> Inquiry as to how much longer the Ambassador feels he should remain in Habana.	317
July 7 (106)	<i>From the Ambassador in Cuba (tel.)</i> Report of progress in mediation negotiations; information concerning reestablishment of normal constitutional guarantees in the province of Habana.	318
July 8 (107)	<i>From the Ambassador in Cuba (tel.)</i> Opinion as to probable length of time it will be necessary to remain in Cuba; information that final negotiations for commercial treaty will soon begin.	319
July 12 (109)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning explosion of bomb near American Club without serious damage, and condemnation of act by all opposition delegates.	320
July 12 (110)	<i>From the Ambassador in Cuba (tel.)</i> Further report of mediation proceedings; President Machado's efforts to expedite negotiations by appointing representatives of political party committees to participate in proceedings; advice that Professor McBain is proceeding rapidly with the formulation of his recommendations for revision of the electoral code.	320

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
July 17 (112)	<i>From the Ambassador in Cuba (tel.)</i> Information that President Machado has decreed the abolition of press censorship; opinion that the reestablishment of full constitutional guarantees can only be obtained through the immediate passage of a general amnesty bill.	322
July 17	<i>From the Ambassador in Cuba to President Roosevelt</i> Request for specific authorization to urge President Machado's acceptance of suggestion that, after a Vice President satisfactory to all parties has been selected and has taken office, he resign and allow the Vice President to assume control until the election of a new constitutional government in November 1934.	323
July 19 (113)	<i>From the Ambassador in Cuba (tel.)</i> Request for authorization to inform President Machado that unless constitutional guarantees are restored immediately, mediation negotiations will be discontinued.	325
July 19 (58)	<i>To the Ambassador in Cuba (tel.)</i> Authorization to take proposed action to secure restoration of constitutional guarantees in Habana.	327
July 26 (115)	<i>From the Ambassador in Cuba (tel.)</i> Passage of the general amnesty bill, and intention of President Machado to promulgate it on July 26, and simultaneously to proclaim the reestablishment of constitutional guarantees. Intention, upon the reestablishment of constitutional guarantees, to call the first meeting of the Mixed Commission, composed of representatives of the government and the opposition, to consider permanent constitutional reforms and transitory reforms for solution of existing political situation.	327
July 26 (117)	<i>From the Ambassador in Cuba (tel.)</i> Information that amnesty bill and decree reestablishing constitutional guarantees have been promulgated; President Machado's assurance that he will not oppose measure with regard to transitory reforms once an agreement has been reached by opposition leaders.	328
July 27 (119)	<i>From the Ambassador in Cuba (tel.)</i> Speeches by President Machado before the Cuban Senate and House, in which he said that Ambassador Welles' mediation had not been undertaken upon the instruction of the U. S. Government; suggestion that it would be helpful if the Department, at an appropriate opportunity, would correct this misstatement.	330
July 27 (120)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning first meeting of the Mixed Commission composed of opposition delegates and delegates of the three political parties.	331
Aug. 2	<i>Memorandum by the Acting Secretary of State</i> Explanation to Cuban Ambassador with regard to press reports of Ambassador Welles' announcement that there would be no progress in commercial treaty negotiations until the political conferences had reached a satisfactory conclusion.	331

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
Aug. 2 (121)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Professor McBain has handed his completed report for electoral reform to President Machado, who has requested that confidential approval of opposition leaders be obtained before he sends the report to the Cuban Congress.	332
Aug. 2 (122)	<i>From the Ambassador in Cuba (tel.)</i> Interview with President Machado concerning recent political disturbances; views of Machado and of the Speaker of the House of Representatives concerning proposed temporary reform measures.	332
Aug. 4 (125)	<i>From the Ambassador in Cuba (tel.)</i> Information that delegates of the Liberal Party suggested suspension of mediation negotiations in view of serious situation of unrest in Cuba, but withdrew request upon Ambassador's emphatic assurances as to ill effects of such action.	334
Aug. 5 (126)	<i>From the Ambassador in Cuba (tel.)</i> Further advice concerning attitude of Liberal Party toward mediation negotiations. Progress of Mixed Commission in agreeing on permanent constitutional reforms.	334
Aug. 7 (128)	<i>From the Ambassador in Cuba (tel.)</i> Request for reply to Ambassador's inquiry in his letter of July 17 to President Roosevelt.	336
Aug. 7 (129)	<i>From the Ambassador in Cuba (tel.)</i> Advice that a general strike of Cuban workers has spread throughout the Republic; suggestion to President Machado of measures for political reform for solution of the problem, involving his request for a leave of absence and replacement by a newly appointed, impartial Secretary of State.	336
Aug. 7 (131)	<i>From the Ambassador in Cuba (tel.)</i> Information that President Machado has not yet reached a decision on his course of action; advice that meetings of members of Congress of both the Liberal and Conservative Parties are in session in order to determine what action may be taken.	338
Aug. 7 (64)	<i>To the Ambassador in Cuba (tel.)</i> Information that President Roosevelt approves of suggested measures for solution of the Cuban political crisis referred to in telegram No. 129, August 7.	338
Aug. 7 (132)	<i>From the Ambassador in Cuba (tel.)</i> Opinion that it would be helpful if the Cuban Ambassador in Washington were to be informed of President Roosevelt's approval of proposed solution for present crisis in Cuba.	338
Aug. 8	<i>Memorandum by the Under Secretary of State</i> Conversation with Cuban Ambassador, who said that he had been informed by President Machado that the strike had been called off, and, further, that President Machado would not accept the plan for substitution of the Secretary of State and ultimate election of a Vice President.	339

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933 Aug. 8 (133)	<i>From the Ambassador in Cuba (tel.)</i> For President Roosevelt: Information that President Machado has told members of Congress that solution proposed by Ambassador Welles had not been approved by President Roosevelt; request that Cuban Ambassador be informed that Ambassador Welles is acting with fullest authorization and approval.	339
Aug. 8 (134)	<i>From the Ambassador in Cuba (tel.)</i> President Machado's refusal to accept two of five points of proposed solution of Cuban political problem, but willingness to consider formulation of a counterproposal. Recommendations for policy to be followed by United States in event of President Machado's continued refusal to accept a reasonable solution, and request that these recommendations be submitted for President Roosevelt's approval.	340
Aug. 9 (135)	<i>From the Ambassador in Cuba (tel.)</i> Summary of chief points of recommendations of policy, based on President Machado's withdrawal from office and ultimate holding of free constitutional elections.	344
Aug. 9 (137)	<i>From the Ambassador in Cuba (tel.)</i> Spanish Ambassador's complaint with regard to Cuban treatment of Spanish citizens; information from British Minister concerning damage done to British property in Cuba.	345
Aug. 9 (138)	<i>From the Ambassador in Cuba (tel.)</i> For the Under Secretary: Information concerning a plan to assassinate Ambassador Welles if President Machado is forced to resign, in order to provoke American intervention.	345
Aug. 9 (139)	<i>From the Ambassador in Cuba (tel.)</i> Possibility that a resolution will be adopted by the Cuban House of Representatives attacking Ambassador Welles' course as mediator in the Cuban dispute; opinion as to importance of making clear to President Machado U. S. determination to comply with its treaty obligations.	346
Aug. 9 (66)	<i>To the Ambassador in Cuba (tel.)</i> Account of President Roosevelt's conversation with the Cuban Ambassador, wherein the President suggested a means whereby Machado might be persuaded to resign as of his own initiative.	347
Aug. 9 (141)	<i>From the Ambassador in Cuba (tel.)</i> Popular Party's official resolution accepting Ambassador Welles' proposed solution of the Cuban problem.	348
Aug. 10 (142)	<i>From the Ambassador in Cuba (tel.)</i> Information that President Machado and Secretary of State Ferrara have succeeded in forcing the executive committee of the Liberal Party to pass a resolution rejecting the Ambassador's proposed solution.	349
Aug. 10 (165)	<i>From the Ambassador in Mexico (tel.)</i> Conversation with Foreign Minister, wherein he proposed that the United States act in cooperation with other Latin American countries in bringing about the Cuban President's resignation and an end to the Cuban revolution.	350

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933 Aug. 10 (144)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Appreciation of President Roosevelt's support of actions as mediator, as indicated in his conversation with the Cuban Ambassador.	351
Aug. 10 (145)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with Secretary of State Ferrara, who was advised of the substance of President Roosevelt's discussion with the Cuban Ambassador, and was told that no arrangements could be reached which had as a basis the continuance of the Machado administration.	351
Aug. 10 (69)	<i>To the Ambassador in Cuba (tel.)</i> Conversation of Secretary and Under Secretary of State with the Cuban Ambassador, who requested that President Roosevelt be advised of his proposal that Ambassador Welles be asked to return to Washington for consultation; President Roosevelt's reply (text printed) that he was not disposed to take such action and that it was now up to President Machado to act on the suggestions submitted to him.	352
Aug. 11 (147)	<i>From the Ambassador in Cuba (tel.)</i> Information with regard to Conservative Party's official resolution accepting the mediation negotiations and Ambassador Welles' proposed solution of the political problem.	353
Aug. 11 (70)	<i>To the Ambassador in Cuba (tel.)</i> Comments on criticisms which have been made both in the United States and Latin America regarding U. S. mediation in the Cuban crisis, and importance of stressing fact that the Ambassador is making a friendly effort to assist the Cubans to solve their own problems.	354
Aug. 11 (149)	<i>From the Ambassador in Cuba (tel.)</i> Suggestion, agreed to by all factions, to be made to President Machado that if he will not accept the two points of the solution submitted to him, he offer as a counterproposal to appoint General Herrera as acting head of the government to hold office until a Vice President is inaugurated.	355
Aug. 11 (150)	<i>From the Ambassador in Cuba (tel.)</i> Information that President Machado intends to submit a counterproposal to the mediator, and, if this proposal is found unacceptable, to request a leave of absence, turning over the government to General Herrera.	356
Aug. 12 (151)	<i>From the Ambassador in Cuba (tel.)</i> Information with regard to threatened revolts in divers portions of the Cuban Army, and insistence upon the immediate resignation of Machado.	358
Aug. 12 (152)	<i>From the Ambassador in Cuba (tel.)</i> Advice that President Machado has sent a message to Congress requesting leave of absence; that General Herrera has accepted the ad interim Presidency but will immediately appoint Dr. Céspedes as Secretary of State and entrust the Presidency to him.	358

CUBA

REVOLUTION IN CUBA—Continued

I. INCREASING OPPOSITION TO PRESIDENT MACHADO AND OVERTHROW OF HIS GOVERNMENT—continued

Date and number	Subject	Page
1933		
Aug. 12 (73)	<i>To the Ambassador in Cuba (tel.)</i> From Under Secretary of State Caffery: Congratulatory message from President Roosevelt and the Secretary of State.	360
Aug. 13	<i>From the Consul at Nassau (tel.)</i> Arrival of ex-President Machado at Nassau.	360
Aug. 13 (154)	<i>From the Ambassador in Cuba (tel.)</i> For Caffery: Appreciation of the Secretary's message as transmitted in telegram No. 73, August 12.	360
Aug. 13 (155)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Appreciation of message transmitted in telegram No. 73, August 12; views regarding financial needs of the new Cuban Government.	360

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA

1933		
Aug. 13 (156)	<i>From the Ambassador in Cuba (tel.)</i> Information that Dr. Céspedes has formally taken the oath of office as President ad interim of Cuba; request for authorization to announce that American Embassy has established official relations with the new government.	361
Aug. 13 (157)	<i>From the Ambassador in Cuba (tel.)</i> Request that facilities for disembarkation at Key West be provided for members of Machado's family in view of the emergency nature of their departure from Habana.	362
Aug. 14 (158)	<i>From the Ambassador in Cuba (tel.)</i> Report of the arrival at Habana of the U. S. ships <i>Taylor</i> and <i>Claxton</i> ; belief that no men need be landed from the ships since the situation in Habana is now well in hand.	363
Aug. 14 (159)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Céspedes has announced the formation of his Cabinet; views as to the desirability of the retention of the existing Congress until the elections of 1934.	363
Aug. 15 (162)	<i>From the Ambassador in Cuba (tel.)</i> Suggestion for two declarations (texts printed) to allay public feeling concerning questions of punishment of and continuance in office of officials of the Machado government; views as to necessity for restoration of discipline in the Cuban Army.	365
Aug. 19 (172)	<i>From the Ambassador in Cuba (tel.)</i> For the Under Secretary: Opinion that it would appear advisable for Ambassador Welles to return to the Department, to be replaced by Mr. Caffery, by approximately September 1, provided no further political disturbances occur; request for instructions to continue commercial treaty negotiations and to initiate measures to relieve Cuban financial situation.	367
Aug. 21 (77)	<i>To the Ambassador in Cuba (tel.)</i> From the Under Secretary: President Roosevelt's belief that Ambassador Welles should remain in Cuba until September 15.	369

LIST OF PAPERS

XXXIX

CUBA

REVOLUTION IN CUBA—Continued

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA—continued

Date and number	Subject	Page
1933		
Aug. 22 (180)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning attempts to transform the present provisional Cuban government into a purely revolutionary <i>de facto</i> government.	369
Aug. 23 (181)	<i>From the Ambassador in Cuba (tel.)</i> Information that the appointment of Caffery as Welles' successor would be acceptable to the Cuban government.	371
Aug. 24 (184)	<i>From the Ambassador in Cuba (tel.)</i> Opinion that the present government of Cuba cannot govern as a constitutional government for the remainder of the term for which Machado had been elected; suggestion that government's program be modified in order that general elections may be held in approximately 3 months.	371
Aug. 25 (185)	<i>From the Ambassador in Cuba (tel.)</i> President Céspedes' decree (text printed) declaring Machado's second term of office unconstitutional and calling for general elections to be held on February 24, 1934.	373
Aug. 27	<i>From the Consul at Nassau (tel.)</i> Advice that Machado and party have left Nassau for Montreal.	376
Aug. 30 (186)	<i>From the Ambassador in Cuba (tel.)</i> Fears expressed by American businessmen in Cuba with regard to Cuban social and labor unrest; views concerning necessity for the determination by the United States of a fair sugar quota for Cuba and U. S. assistance in the formulation of other financing and economic recommendations.	376
Aug. 30 (187)	<i>From the Ambassador in Cuba (tel.)</i> Opinion that changes made in the offices of Secretary of War and Marine and Army Chief of Staff hold the promise of an immediate improvement in the discipline of the Cuban Army.	378
Sept. 5 (191)	<i>From the Ambassador in Cuba (tel.)</i> Advice that soldiers in the garrisons of Habana have deposed all officers and have declared themselves in control of the Army; recommendation that two U. S. warships be sent to Habana and one to Santiago.	379
Undated	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba, September 5, 1933, 8:10 a. m.</i> Ambassador Welles' advice that a revolutionary government has been set up in Cuba, that all military officers have been removed, and that a sergeant named Batista has been installed as Chief of Staff; request that a U. S. battle cruiser be sent to Habana at once.	380
Sept. 5 (192)	<i>From the Ambassador in Cuba (tel.)</i> Further information concerning the proclamation of a so-called revolutionary government in Cuba and creation of an Executive Committee of Five; intention to avoid necessity of armed intervention by the United States as far as possible, and suggestion that situation be explained fully to Latin American representatives.	381

CUBA

REVOLUTION IN CUBA—Continued

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA—continued

Date and number	Subject	Page
1933		
Sept. 5 (193)	<i>From the Ambassador in Cuba (tel.)</i> Report of conversation with Sergeants Batista and Santana, who inquired with regard to the Ambassador's attitude and that of his Government toward the revolutionary government of Cuba.	383
Sept. 5 (194)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with the Secretary of War, who said that an attempted compromise between the Céspedes government and the revolutionary government has failed.	383
Sept. 5 (195)	<i>From the Ambassador in Cuba (tel.)</i> Advice that the Céspedes Cabinet has resigned and that a committee of five members of the revolutionary group has taken possession of the Palace as the executive power of Cuba; report on conference with certain Cuban political leaders.	384
Undated	<i>Memorandum of Telephone Conversations Between the Secretary of State and the Ambassador in Cuba on September 5, 1933, 5:30 p. m., and Between the Assistant Secretary of State and the Ambassador in Cuba, 6:15 p. m.</i> Ambassador's report of conferences with Cuban political leaders, who are of the opinion that a certain number of troops should be landed from American ships until a government can be restored in Cuba.	385
Undated	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba, September 5, 1933, 7 p. m.</i> Discussion as to the advisability of having American troops sent ashore in Habana.	386
Sept. 5 (199)	<i>From the Ambassador in Cuba (tel.)</i> Report of meeting with Cuban political leaders, wherein it was agreed that a government of concentration composed of the chiefs of all of the political groups should be installed in Cuba.	387
Undated	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba, September 6, 1933, 10 a. m.</i> Secretary's opinions with regard to question of U. S. intervention in the Cuban revolution.	389
Sept. 6 (202)	<i>From the Ambassador in Cuba (tel.)</i> Report of meeting with political leaders, wherein Ambassador expressed his objection to the proposal for a concentration government, which depended on U. S. assistance in maintaining order; advice that political and ABC leaders have agreed to lend support to the revolutionary government provided public order is maintained.	390
Sept. 6	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Individual conversations with diplomatic representatives of 10 Latin American Republics, during which the U. S. role in the Cuban situation was explained.	392
Sept. 6 (23)	<i>From the Chargé in Guatemala (tel.)</i> President Ubico's views with regard to American intervention in the Cuban revolution.	393

CUBA

REVOLUTION IN CUBA—Continued

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA—continued

Date and number	Subject	Page
1933 Sept. 6 (178)	<i>From the Ambassador in Mexico (tel.)</i> Mexican Government's favorable attitude toward new Cuban government and opposition to U. S. intervention in Cuba.	394
Sept. 7	<i>From the Mexican Minister for Foreign Affairs (tel.)</i> Information with regard to four members of the Executive Commission of the new government of Cuba, indicating that they are not Communists.	394
Sept. 7	<i>To the Mexican Minister for Foreign Affairs (tel.)</i> Assurance with regard to U. S. nonintention of intervening in Cuba.	395
Sept. 7 (206)	<i>From the Ambassador in Cuba (tel.)</i> Report of plan advanced by Dr. Ferrer, Secretary of War in the Céspedes Cabinet, to reestablish the Céspedes government as the legitimate government of Cuba, and his inquiry as to probable U. S. attitude toward a request by the Cuban government for the landing of American troops to assist in maintaining order; Ambassador's observations and request for instructions.	396
Sept. 7	<i>From the Cuban Embassy</i> Memorandum of conversation in which the Cuban Ambassador advised Assistant Secretary of State Caffery of the non-Communist, patriotic nature of the new Cuban government and of the intention of the Executive Commission to form a strong coalition Cabinet.	399
Sept. 7 (208)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning Student Council's intention to arrest certain political leaders; further advice with regard to ABC participation in Dr. Ferrer's plan to reestablish the Céspedes government.	400
Sept. 7 (209)	<i>From the Ambassador in Cuba (tel.)</i> Information from the Secretary of Public Instruction in the Céspedes Cabinet that Sergeant Batista has requested an interview with President Céspedes in order to inform him that the Cuban Army wishes to place itself at his disposal.	400
Sept. 7 (180)	<i>From the Ambassador in Mexico (tel.)</i> Foreign Minister's advice concerning an endeavor to secure the cooperation of certain South American countries to bring influence to bear on the present Cuban government for the maintenance of order and protection of foreign interests in Cuba.	401
Sept. 7	<i>Memorandum by the Secretary of State</i> Conversation with the French Ambassador, who made inquiry about conditions in Cuba and said he had been informed that a French national had been killed by disorderly forces at Santiago.	401
Sept. 7 (90)	<i>To the Ambassador in Cuba (tel.)</i> Communication of a message from President Roosevelt (text printed) with regard to the U. S. policy of strict neutrality in the Cuban revolution.	402

CUBA

REVOLUTION IN CUBA—Continued

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA—continued

Date and number	Subject	Page
1933 Sept. 7 (210)	<i>From the Ambassador in Cuba (tel.)</i> Advice regarding a meeting to be held by the leaders of all Cuban political groups, during which the revolutionary group will turn over the government and Céspedes will be restored as President.	403
Sept. 8 (212)	<i>From the Ambassador in Cuba (tel.)</i> Advice that meeting of political leaders appears to have degenerated into a fruitless prolonged argument.	403
Sept. 8 (214)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Views with regard to the necessity of having the U. S. destroyer <i>Richmond</i> anchored in Habana harbor as a precautionary measure against possible disturbances in the city which might endanger American lives.	403
Sept. 8 (36)	<i>From the Minister in the Dominican Republic (tel.)</i> President Trujillo's desire to assure the U. S. Government of his readiness to cooperate in any way with regard to the Cuban situation.	404
Sept. 8 (216)	<i>From the Ambassador in Cuba (tel.)</i> For the President and the Secretary: Summary of the present Cuban situation and considerations as to U. S. policy in event of reinstatement of Céspedes as President of Cuba.	405
Sept. 8 (217)	<i>From the Ambassador in Cuba (tel.)</i> Advice that the Hotel Nacional in Habana has been decided upon by Cuban Army officers as headquarters; possibility, in event of an attack by the soldiers, of danger to American residents of the hotel.	407
Sept. 8	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Dr. Marquez Sterling, in charge of the Cuban Embassy, who made inquiry regarding reported U. S. intention of disembarking marines at Habana, and with regard to U. S. attitude toward proposed formation of a concentration government in Cuba.	407
Sept. 8	<i>From the Argentine Ministry for Foreign Affairs</i> Argentine Government's approval of the principles and ideals through which the United States is attempting to solve the Cuban crisis.	409
Sept. 8	<i>Memorandum of Telephone Conversation Between President Roosevelt, the Secretary of State, and the Ambassador in Cuba</i> Ambassador Welles' advice concerning the departure of approximately half the officers in the National Hotel and of all the soldiers surrounding the hotel; President Roosevelt's authorization for the issuance of a statement by Ambassador Welles with regard to the question of U. S. recognition of the present Cuban government.	410
Sept. 9 (220)	<i>From the Ambassador in Cuba (tel.)</i> Resignation of two members of Cuban revolutionary group owing to Batista's appointment as Colonel and permanent Chief of Staff of the Army.	410

CUBA

REVOLUTION IN CUBA—Continued

II. GOVERNMENT OF PRESIDENT CÉSPEDES AND ARMY REVOLT LED BY SERGEANT BATISTA—continued

Date and number	Subject	Page
1933 Sept. 9 (221)	<i>From the Ambassador in Cuba (tel.)</i> Disturbances in and about the National Hotel, arising from attempts by a detachment of soldiers to conduct a search of the hotel for arms.	411
Undated	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Mexico, September 9, 1933, 1 p. m.</i> Secretary's hope that Mexican Government will continue its efforts to encourage the Cubans to build up a government that will be stable and will preserve law and order.	412
Sept. 9 (182)	<i>From the Ambassador in Mexico (tel.)</i> Information with regard to Foreign Minister's endeavors to assist in securing order in Cuba.	413
Sept. 9 (222)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning Batista's offer to support Céspedes' restoration to the Presidency upon certain conditions; further information that meeting of political leaders with members of the revolutionary group has resulted in the determination to restore the presidential form of government in Cuba.	414
Sept. 9	<i>From the Ambassador in Mexico</i> Opinion with regard to communistic influence in Cuba, and agreement with Secretary's viewpoint that the whole Cuban crisis revolves around the Army.	414
Sept. 9	<i>Memorandum by the Assistant Secretary of State</i> Advice from Mexican Chargé that the Chilean Government has responded to the Mexican proposal to Argentina, Brazil, and Chile that their representatives at Habana urge upon the Cuban <i>de facto</i> authorities the importance of creating a stable government in Cuba.	416

III. THE REGIME OF GRAU SAN MARTÍN

1933 Sept. 10 (224)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Dr. Grau San Martín has been designated Provisional President of the Cuban Republic; Ambassador's recommendation regarding consultation with Latin American Republics on the question of recognition of the new government.	416
Sept. 10 (228)	<i>From the Ambassador in Cuba (tel.)</i> Ambassador's refutation of charge made by the Directorio Estudiantil concerning his alleged inciting of the Army officers to disturb public order, as a pretext for landing of U. S. Marines.	418
Sept. 11 (231)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning an ABC proclamation making plain the organization's hostility toward the present regime in Habana; condemnation of the regime by other political organizations.	419

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Sept. 11	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Brazilian Ambassador, who expressed his Government's appreciation at being informed of the U. S. viewpoint in regard to the Cuban situation; Brazilian attitude toward the Mexican proposal to the ABC countries for representations at Habana.	420
Sept. 11	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Chilean Chargé, who expressed his Government's appreciation for information as to the U. S. viewpoint in regard to the Cuban crisis; Chilean Government's approval of Mexican proposal with the added suggestion that every Latin American country be included.	421
Sept. 11 (24)	<i>To the Minister in the Dominican Republic (tel.)</i> Instructions to inform Foreign Minister orally of U. S. appreciation of Dominican willingness to cooperate in a solution of the Cuban revolution.	421
Sept. 11	<i>To Certain Diplomatic and Consular Missions (cir. tel.)</i> Instructions regarding the U. S. policy of nonintervention in the Cuban situation.	422
Sept. 11 (233)	<i>From the Ambassador in Cuba (tel.)</i> Advice that the Cuban political organization, the OCRR, will proclaim its hostility and opposition to the Grau San Martín regime; request that the Secretary issue a statement making plain the U. S. attitude toward recognition of the present government.	422
Sept. 11 (96)	<i>To the Ambassador in Cuba (tel.)</i> Advice that President Roosevelt has authorized the Secretary to issue a statement (text printed) as requested in telegram No. 233, September 11.	424
Sept. 12 (236)	<i>From the Ambassador in Cuba (tel.)</i> Unión Nacionalista's issuance of a statement of opposition to the present Cuban regime; advice with regard to Cabinet appointments by Grau San Martín; views concerning present outlook of Cuban affairs.	425
Sept. 12 (238)	<i>From the Ambassador in Cuba (tel.)</i> Views with regard to press criticisms of Ambassador's activities in Cuba, and request for frank expression of opinion from both the President and the Secretary of State as to the advisability of returning to the United States within the next few days. Information that no adjustment of the situation of the Army officers in the National Hotel has been reached.	426
Sept. 13	<i>Memorandum by the Assistant Secretary of State</i> Conversation with the Mexican Chargé, who said that, as Cuba now appears to have a stable government, his Government was not proceeding with its recent proposal to the ABC Republics; Mexican attitude, and U. S. position, concerning withdrawal of U. S. vessels from Cuban waters.	428
Sept. 13 (246)	<i>From the Ambassador in Cuba (tel.)</i> Account of the present general political situation in Habana.	431

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Sept. 13 (98)	<i>To the Ambassador in Cuba (tel.)</i> Opinion of the President and the Secretary that the Ambassador should remain at Habana for the present.	432
Sept. 14 (249)	<i>From the Ambassador in Cuba (tel.)</i> Suggestion that the French Embassy be informed of the advisability of postponing the projected visit to Habana of a French warship.	432
Sept. 14	<i>Memorandum by the Secretary of State</i> Conversation with the French Ambassador, during which the Secretary pointed out the advisability of postponing the visit of a French ship to Habana.	432
Sept. 14 (100)	<i>To the Ambassador in Cuba (tel.)</i> Advice of the Secretary's conversation with the French Ambassador, and further advice that the Embassy at Paris has been instructed to take the matter up immediately with the Foreign Office.	433
Sept. 14 (167)	<i>To the Ambassador in Cuba</i> Information concerning explanations to Latin American countries of U. S. actions and reasons in dispatching ships to Cuba upon the outbreak of revolution there.	433
Sept. 14 (254)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with Dr. Carlos Saladrigas, Acting Secretary of State in the Céspedes government, who informed the Ambassador that the ABC was cooperating with other parties opposed to the present Cuban government in order to force a national compromise.	435
Sept. 14 (258)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning a proclamation issued by the Grau San Martín government relative to its program.	436
Sept. 14	<i>From the Ambassador in Brazil</i> Memorandum (text printed) of a conversation with the Foreign Minister concerning Brazil's attitude with respect to the Cuban political situation and the relations thereto of the United States, Mexico, and Chile.	437
Sept. 15 (409)	<i>From the Chargé in France (tel.)</i> French attitude with regard to despatch boat reportedly under orders to proceed to Habana.	437
Sept. 15 (263)	<i>From the Ambassador in Cuba (tel.)</i> Plans for conversations between political leaders and representatives of the Grau San Martín regime; report of attempts to obtain the cooperation of members of the Directorio Estudiantil.	438
Sept. 16 (265)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning interview with the full membership of the Directorio Estudiantil.	439
Sept. 16	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba, September 16, 1933, 10:30 a. m.</i> Consideration of the general subject of U. S. recognition of the Grau San Martín regime.	439

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Sept. 16 (266)	<i>From the Ambassador in Cuba (tel.)</i> Report of meeting between political leaders and Grau San Martín; efforts to impress upon members of the Directorio Estudiantil the seriousness of the situation.	440
Sept. 17 (270)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning proposals of political leaders for a new national provisional government and their refusal to support Grau San Martín or any government solely responsible to the Student Council.	442
Sept. 17 (271)	<i>From the Ambassador in Cuba (tel.)</i> Summary of conversation with Grau San Martín, during which Cuban political situation and question of U. S. recognition were discussed, and suggestion made concerning the formation of a Cuban government of concentration.	443
Sept. 17 (273)	<i>From the Ambassador in Cuba (tel.)</i> Further meeting between Grau San Martín and leaders of the political parties; advice that political party leaders are now in session to determine what action they will take with regard to Grau San Martín.	445
Sept. 18 (275)	<i>From the Ambassador in Cuba (tel.)</i> Information that leaders of the political groups have decided not to support Grau San Martín as President of proposed new provisional government.	446
Sept. 18 (277)	<i>From the Ambassador in Cuba (tel.)</i> Advice that leaders of the political groups have presented their ultimatum to Grau San Martín demanding the resignation of his government; proposed plan for the creation of a non-partisan government.	448
Sept. 19 (279)	<i>From the Ambassador in Cuba (tel.)</i> Information on revolutionary movement in Camagüey Province; advice that Grau San Martín and the Student Council are in conference drafting their reply to the ultimatum presented by the political leaders.	449
Sept. 20 (285)	<i>From the Ambassador in Cuba (tel.)</i> Advice that certain Student Council leaders are in conference with Miguel Gómez, for the purpose of having him serve as intermediary between the government and the opposition leaders; information concerning further revolutionary outbreaks in the interior of Cuba.	450
Sept. 21 (289)	<i>From the Ambassador in Cuba (tel.)</i> Interview with Sergeant Batista during which it was proposed that he exert his influence with both the students and the present regime in order that an acceptable counterproposal might be made to the opposition group's ultimatum; suggestions for a message to be addressed to the Cuban people by President Roosevelt, urging a common accord.	451

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Sept. 22 (291)	<i>From the Ambassador in Cuba (tel.)</i> Advice that leaders of the student group have agreed to propose a compromise to the opposition leaders; reaction of opposition leaders to proposed compromise. Opinion as to the desirability of the issuance of a message from President Roosevelt to the Cubans to further a speedy agreement by all factions in Cuba.	454
Sept. 22 (294)	<i>From the Ambassador in Cuba (tel.)</i> Advice that both the Student Council and Grau San Martín have reversed their former conciliatory attitude and have stated that they would agree to no compromise whatever; report on progress of Batista's efforts to secure students' acceptance of counterproposal.	455
Sept. 23 (297)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning a proposed interview between Batista and the opposition leaders, which the students insist on attending.	456
Sept. 23 (299)	<i>From the Ambassador in Cuba (tel.)</i> Advice that it was unanimously decided in a conference between student representatives and leaders of the political parties that a substitute for Grau San Martín should be considered the basis of a compromise.	456
Sept. 25 (304)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Ambassador's conviction that a statement by President Roosevelt would have a decisive effect on the present Cuban political scene.	457
Sept. 25 (307)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Colonel Juan Blas Hernandez, who attempted to lead a revolution in Santa Clara Province recently, has arrived in Habana to make an ostensible peace with the Grau San Martín government.	458
Sept. 25 (308)	<i>From the Ambassador in Cuba (tel.)</i> Information that negotiations between the political leaders and representatives of the Grau San Martín regime have definitely broken down; opposition leaders' determination to hold no further conversations with the students or with Grau San Martín.	459
Sept. 26 (110)	<i>To the Ambassador in Cuba (tel.)</i> Advice that President Roosevelt thus far has not felt justified in sending another message to the Cuban people.	459
Sept. 27 (311)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning attacks on the present Cuban regime by former adherents. Arrangements for interview with Sergio Carbo, member of Executive Committee of Five.	459
Sept. 28 (112)	<i>To the Ambassador in Cuba (tel.)</i> From Caffery: Conversation with Dr. Carlos Finlay and Márquez Sterling, Secretaries of Sanitation and State in the Grau San Martín Cabinet, who were advised of U. S. interest in the formation of a stable, representative government in Cuba.	460

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Oct. 1 (328)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning an offer made by diplomatic representatives of Uruguay, Chile, and Mexico to mediate between the government and the opposition in the Cuban crisis; Ambassador's opinion with regard to question of his participation in the mediation effort.	460
Oct. 1 (329)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with Sergio Carbo, who advanced a plan for the creation of a provisional government based on a fusion of various political groups favorable to social reform and with the support and active participation of the Army.	461
Oct. 2 (330)	<i>From the Ambassador in Cuba (tel.)</i> Report of fighting between soldiers collected about the National Hotel and the officers quartered in the hotel; suggestion to Dean of the Diplomatic Corps for offer by certain members of the Diplomatic Corps to mediate between the soldiers and the officers.	463
Oct. 2	<i>Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba</i> Discussion of proposed action by the Diplomatic Corps in Cuba to bring about a peaceful settlement between the officers and the soldiers; advice of conditions which have been proposed to the officers by the Army.	464
Oct. 2 (331)	<i>From the Ambassador in Cuba (tel.)</i> Report of meeting of the Diplomatic Corps, at which it was decided to make representations to Grau San Martín for an immediate truce between the officers and the soldiers; information that the officers in the National Hotel have surrendered to the soldiers.	465
Oct. 2 (332)	<i>From the Ambassador in Cuba (tel.)</i> Report of a great deal of shooting throughout the city of Habana, and concern over the fact that the soldiers are looting the wine cellars of the National Hotel. Information that a few officers are still in refuge in the National Hotel.	466
Oct. 2 (333)	<i>From the Ambassador in Cuba (tel.)</i> Advice from Batista that he has placed a guard around the National Hotel to prevent any further looting by soldiers. Batista's assurance that the lives of all the officers now in custody will be personally guaranteed by himself.	467
Oct. 3 (335)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning casualties of officers, soldiers, and civilians in Habana; rumors that the Student Council and a portion of the soldiers wish summarily to execute the officers who are now in prison.	467
Oct. 4 (339)	<i>From the Ambassador in Cuba (tel.)</i> Information from the Minister of Paraguay that it is the unanimous opinion of all the Latin American members of the Diplomatic Corps in Cuba that the U. S. policy with respect to the Cuban situation is absolutely right and proper.	468

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Oct. 4 (340)	<i>From the Ambassador in Cuba (tel.)</i> Conversation with Batista during which he gave assurances of fair treatment of the imprisoned officers; Ambassador's inquiry concerning conditions on the sugar plantations; discussion regarding the present Cuban political situation.	469
Oct. 5 (113)	<i>To the Ambassador in Cuba (tel.)</i> Advice as to President Roosevelt's viewpoint with respect to capture of the Cuban officers and toward recognition of Cuba. Information that an informal memorandum was left at the Department by the Cuban representative advising that Grau San Martín intends to make certain Cabinet changes.	472
Oct. 5 (341)	<i>From the Ambassador in Cuba (tel.)</i> Recommendation with regard to question of U. S. recognition of the existing Cuban government; advice concerning a general assembly of the university students to be held shortly.	473
Oct. 6	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Brazilian Ambassador, who advised that the Brazilian Government desires to act in accord with the United States in the matter of recognition of the Grau San Martín government.	474
Oct. 6 (137)	<i>From the Chargé in Panama (tel.)</i> Information regarding Panamanian recognition of the present Cuban government.	475
Oct. 6 (343)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning full meeting of the Student Directorate wherein majority of the students determined that they would inevitably be forced to get rid of Batista to avoid a military dictatorship.	475
Oct. 6 (344)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning position of other Governments with regard to recognition of the Cuban government.	476
Oct. 6 (345)	<i>From the Ambassador in Cuba (tel.)</i> Student Council's desire for an immediate understanding with opposition political groups; Batista's determination that students must withdraw from all contact with the government and refrain from any interference with the installation of a concentration government.	476
Oct. 7 (347)	<i>From the Ambassador in Cuba (tel.)</i> Conference with Batista wherein he stated his viewpoint with regard to the necessity for a concentration government in Cuba.	477
Oct. 9 (348)	<i>From the Ambassador in Cuba (tel.)</i> Information that Mendieta, leader of the Unión Nacionalista Party, has been authorized to speak in the name of all the important opposition groups in a forthcoming interview with Batista.	478

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Oct. 9 (349)	<i>From the Ambassador in Cuba (tel.)</i> For Caffery: Report that negotiations have been materially handicapped by Carlos Finlay's statement to Grau San Martín regarding the prospect of immediate recognition by the United States; request for clarification of alleged commitment made by Caffery to Finlay.	478
Oct. 9 (115)	<i>To the Ambassador in Cuba (tel.)</i> From Caffery: Denial of having made the alleged commitment reported by Finlay.	479
Oct. 10 (350)	<i>From the Ambassador in Cuba (tel.)</i> Information that negotiations for a concentration government are being complicated by Finlay's reports and by student propaganda against the United States aimed at arousing the Army; decision of principal party leaders to support Mendieta as their spokesman and to urge that he accept the Provisional Presidency.	479
Oct. 10 (351)	<i>From the Ambassador in Cuba (tel.)</i> Obstacles to the creation of a concentration government; information regarding a proposed super-governmental advisory committee.	480
Oct. 10 (117)	<i>To the Ambassador in Cuba (tel.)</i> Advice that the Under Secretary at a press conference reiterated the U. S. position with regard to recognition of any Cuban government.	482
Oct. 11 (352)	<i>From the Ambassador in Cuba (tel.)</i> For Caffery: Advice that statement referred to in telegram No. 117, October 10, has created an extremely beneficial effect in Habana; suggestion that statement be reiterated to Márquez Sterling in order that he may inform his government accordingly.	482
Oct. 11 (118)	<i>To the Ambassador in Cuba (tel.)</i> From Caffery: Account of conversation with Márquez Sterling, wherein the U. S. position on recognition was made clear.	483
Oct. 11 (354)	<i>From the Ambassador in Cuba (tel.)</i> Information from Spanish Ambassador that he has been instructed by the new Spanish Cabinet to recognize the Grau San Martín government.	483
Oct. 13 (91)	<i>From the Ambassador in Brazil (tel.)</i> Foreign Minister's desire for information with regard to U. S. progress toward recognition of the Cuban government.	483
Oct. 13 (359)	<i>From the Ambassador in Cuba (tel.)</i> Announcement by the Cuban government of an arrangement with the Mexican Government for the services of a military mission to be used in the training of officers in the present Cuban Army; advice regarding activities of the Mexican Chargé directed toward the lessening of U. S. influence in Cuba.	484

LIST OF PAPERS

LI

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Oct. 13 (360)	<i>From the Ambassador in Cuba (tel.)</i> Brazilian Chargé's opinion with regard to stability of the present Cuban government; Ambassador's request for opinions of Argentine, Brazilian, or Chilean Ambassadors in Washington regarding political conditions in Cuba.	484
Oct. 14 (361)	<i>From the Ambassador in Cuba (tel.)</i> Report of conference with Carlos Finlay, during which the desirability of further efforts for conciliation to establish a common accord between all the political parties was discussed.	485
Oct. 14 (364)	<i>From the Ambassador in Cuba (tel.)</i> For Caffery: Information concerning efforts of present regime to involve the American Embassy in the action taken by the Cuban officers in the National Hotel incident; request that Department issue a press statement making clear the Embassy's position in the matter.	485
Oct. 15 (120)	<i>To the Ambassador in Cuba (tel.)</i> From Caffery: Advice that a statement (text printed) as requested in telegram No. 364, October 14, has been released to the press.	487
Oct. 16 (367)	<i>From the Ambassador in Cuba (tel.)</i> Views and recommendations as to the adoption by the United States of a permanent policy toward Cuba.	487
Oct. 17 (93)	<i>From the Ambassador in Brazil (tel.)</i> Advice that Brazilian Government will await more favorable developments in the Cuban situation before agreeing to any proposal for recognition of the Cuban government.	491
Oct. 18 (370)	<i>From the Ambassador in Cuba (tel.)</i> Information that negotiations between Mendieta and Batista will be resumed.	491
Oct. 18 (372)	<i>From the Ambassador in Cuba (tel.)</i> Report of dissension between the students and Batista over the former's decision to remove the present Chief of Police of Habana in order that an individual of their own choice might be appointed.	491
Oct. 19 (378)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Grau San Martín and the civilian elements associated with him have formulated a compromise solution of the Cuban dispute; expectation that proposed solution will be supported by all factions, with the possible exception of the students.	492
Oct. 20 (382)	<i>From the Ambassador in Cuba (tel.)</i> Information that a written draft of the compromise solution has been received from Grau San Martín.	493
Oct. 21 (182)	<i>From the Ambassador in Cuba</i> Draft of compromise solution (text printed).	494
Oct. 21 (386)	<i>From the Ambassador in Cuba (tel.)</i> Advice that compromise solution will be accepted by leaders of the Unión Nacionalista and ABC and by Cuban business and financial interests.	496

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Oct. 23 (390)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning an ultimatum to be delivered to Grau San Martín by the Student Directorate with respect to his subservience to Batista; report of crisis within the government.	496
Oct. 23 (391)	<i>From the Ambassador in Cuba (tel.)</i> Information that drafts of a provisional constitution and of a program for the provisional government were approved by Grau San Martín and by the Student Directorate.	497
Oct. 24 (392)	<i>From the Ambassador in Cuba (tel.)</i> Advice that the ABC Radical has broken up into two parts, that the majority group has organized as a political party and has come out in violent opposition to the Grau San Martín government.	498
Oct. 24 (395)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning a private interview between Batista and Colonel Blas Hernandez, to discuss plan for placing Mendieta in the Presidency.	499
Oct. 26 (398)	<i>From the Ambassador in Cuba (tel.)</i> Information that Mendieta is consulting with his fellow directors of the Unión Nacionalista concerning his proposed cooperation with Batista in solving the existing political situation; increasing weakness of Batista's position; inability of Grau San Martín Cabinet to agree on plans for a concentration government.	499
Oct. 26 (402)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning agreement reached by delegates of the political parties as to a program for a provisional government under the Presidency of Mendieta.	501
Oct. 27 (406)	<i>From the Ambassador in Cuba (tel.)</i> Information that Batista is in full accord with the agreement referred to in telegram No. 402, October 26.	501
Oct. 29 (410)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Mendieta has refused to accept the Provisional Presidency; Ambassador's urging, in conferences with Nationalist and ABC party leaders, of the adoption of the compromise solution referred to in telegram No. 378, October 19.	501
Oct. 29 (411)	<i>From the Ambassador in Cuba (tel.)</i> Report of conference with Gómez concerning the Cuban political crisis.	502
Oct. 29 (413)	<i>From the Ambassador in Cuba (tel.)</i> Batista's views with regard to immediate necessity for a change in the Cuban government.	503
Oct. 30 (415)	<i>From the Ambassador in Cuba (tel.)</i> Conference with Mendieta, during which problems arising from student activities, imprisonment of officers, and present conditions within the Army were discussed; Mendieta's indication of willingness to accept the Provisional Presidency, if request is made by all factions.	504

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Oct. 30 (416)	<i>From the Ambassador in Cuba (tel.)</i> For the Under Secretary: Belief that a change in the Cuban government will soon take place, making possible Ambassador's release from his duties shortly thereafter.	504
Oct. 30 (417)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning meeting held by the University Student Assembly; opposition of the majority of the students to both the government and the Student Directorate.	505
Oct. 31 (419)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning an interview to be held between Mendieta and Batista, during which an attempt will be made to reach an agreement as to solution of the political crisis.	505
Nov. 1 (420)	<i>From the Ambassador in Cuba (tel.)</i> Advice that Mendieta and other political party leaders have agreed definitely upon a program for a new provisional government; position of the Student Directorate; information with regard to decisions reached by Batista for action to replace the present government by a provisional government headed by Mendieta.	506
Nov. 1 (421)	<i>From the Ambassador in Cuba (tel.)</i> Information that Mendieta has delayed the carrying out of the plan determined upon by Batista and supported by the political leaders in the hope that he can persuade the Student Directorate to agree to it.	506
Nov. 1 (3)	<i>From the Ecuadoran Minister</i> Communication of a resolution (text printed) adopted by the Legislature of Ecuador concerning nonintervention by the United States or by any other state in Cuban internal politics.	507
Nov. 2	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Ecuadoran Minister, who presented a note (<i>supra</i>) communicating the nonintervention resolution with comment that it was not to be regarded as a criticism of U. S. policy toward Cuba.	507
Nov. 2 (422)	<i>From the Ambassador in Cuba (tel.)</i> Interview with Mendieta and Mendez Peñate, during which the former stated his unwillingness to reach any conclusion as to accepting the Provisional Presidency without at least the tacit acquiescence of the more unruly members of the Student Directorate.	508
Nov. 3 (424)	<i>From the Ambassador in Cuba (tel.)</i> Difficulty in various negotiations for a provisional government over question of retention of Grau San Martín. Interview with Dr. Gómez, who has been urged by Batista to accept the position of Provisional President.	509
Nov. 4 (426)	<i>From the Ambassador in Cuba (tel.)</i> Information that political crisis continues, and that all governmental activities are at a standstill; Student Directorate's intention of withdrawing from the government; Army's state of unrest as a result of a false press report regarding U. S. intervention.	511

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Nov. 4 (427)	<i>From the Ambassador in Cuba (tel.)</i> Advice that the Secretary of Gobernación has resigned; further advice concerning university student referendum relating to question of student participation in the government.	512
Nov. 5 (428)	<i>From the Ambassador in Cuba (tel.)</i> Information that university student referendum showed a majority opposed to continued student activities in the government; dissolution of the Student Directorate.	513
Nov. 6 (430)	<i>From the Ambassador in Cuba (tel.)</i> Students' demands for Welles' immediate withdrawal from Cuba; preparations in province of Oriente for a revolution against the Habana government; Gómez' decision to accept the Provisional Presidency.	513
Nov. 6 (431)	<i>From the Ambassador in Cuba (tel.)</i> For the Under Secretary: Ambassador's views as to the possibilities inherent in the Cuban situation, and his belief that he should remain at his post until some solution has been found for the existing political crisis.	515
Nov. 7 (434)	<i>From the Ambassador in Cuba (tel.)</i> Information that letters from various Army officers, alleging responsibility of the American Ambassador for the National Hotel incident, were published in the student paper, <i>Alma Mater</i> .	515
Nov. 7 (436)	<i>From the Ambassador in Cuba (tel.)</i> Further information with regard to the letters published in <i>Alma Mater</i> .	516
Nov. 9 (440)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning Habana rebellion; report that the major part of Santa Clara Province has joined the rebellion and that the entire Province of Matanzas is in arms in support of the movement.	517
Nov. 9 (441)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning government's intention to hold summary courts martial and execution of all soldiers or police who joined the opposition movement; fear that officers imprisoned since the National Hotel incident may likewise be executed, and communication of the facts to the Dean of the Diplomatic Corps in order that representations may be made in the matter.	517
Nov. 9 (442)	<i>From the Ambassador in Cuba (tel.)</i> Further report on the rebellion movement.	518
Nov. 9 (443)	<i>From the Ambassador in Cuba (tel.)</i> Report that certain elements of the ABC have threatened to destroy foreign property and to attack foreigners.	518
Nov. 9 (445)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning bombardment of Atares Fortress in Habana; report of revolutionary movements in the southern portions of Matanzas and Habana Provinces and in Oriente Province.	519

LIST OF PAPERS

LV

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Nov. 9 (446)	<i>From the Ambassador in Cuba (tel.)</i> Surrender of about 400 of the oppositionists at Atares.	519
Nov. 10 (449)	<i>From the Ambassador in Cuba (tel.)</i> Report on further developments in the Cuban situation.	519
Nov. 13 (455)	<i>From the Ambassador in Cuba (tel.)</i> Ambassador's suggestion that he be authorized to return to Washington for the purpose of discussing the Cuban situation with President Roosevelt and with the Department; request that Department make an announcement with regard to Ambassador's departure from Habana.	520
Nov. 14 (126)	<i>To the Ambassador in Cuba (tel.)</i> President Roosevelt's agreement with proposal for Ambassador Welles' return to Washington, and suggestion that Ambassador come to see him in Warm Springs, Ga., on November 19.	521
Undated	<i>Statement by the Acting Secretary of State</i> Announcement that Ambassador Welles is returning to the United States for a conference with President Roosevelt and will afterwards go back to Habana. (Footnote: Issued as a press release, November 15.)	521
Nov. 15 (462)	<i>From the Ambassador in Cuba (tel.)</i> Indications of willingness on the part of the civilian element of the Grau government to come to terms with the opposition groups; advice as to opposition leaders' attitude toward consideration of a compromise.	522
Nov. 16 (463)	<i>From the Ambassador in Cuba (tel.)</i> Batista's expression of regret for and disavowal of participation in the attacks currently being made against the United States and against the Embassy in particular.	522
Nov. 20 (11)	<i>From the Acting Secretary of State to the Secretary of State, at Sea (tel.)</i> Information that Ambassador Welles had an interview with President Roosevelt on November 19; advice concerning plans for Welles' return to the Department and for Mr. Caffery's designation as Special Representative of the President in Cuba. (Footnote: Information that Secretary of State was en route to the Pan American Conference at Montevideo.)	523
Nov. 22	<i>From the Secretary to President Roosevelt (tel.)</i> Request for advice with regard to the propriety of President Roosevelt's receiving a communication signed by Grau San Martín.	524
Nov. 22	<i>To the Secretary to President Roosevelt, at Warm Springs, Georgia (tel.)</i> Opinion that President Roosevelt should not receive the communication from Grau San Martín.	524
Nov. 23	<i>To President Roosevelt, at Warm Springs, Georgia (tel.)</i> Draft statement (text printed) reiterating the U. S. policy toward recognition of a provisional government in Cuba. (Footnote: Information that this statement was issued on November 23 by the President at Warm Springs.)	525

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933		
Nov. 25	<i>Memorandum by the Assistant Secretary of State</i> Chilean Ambassador's inquiry as to what the U. S. attitude would be if various Latin American countries decided to recognize the Grau San Martín government before the Montevideo Conference convenes.	526
Nov. 25	<i>Memorandum by the Acting Secretary of State</i> Observations as to reply to be made to the Chilean Ambassador's inquiry, referring him to President Roosevelt's statement of November 23.	526
Nov. 27 (483)	<i>From the Chargé in Cuba (tel.)</i> Batista's promise of a thorough investigation and the punishment of persons guilty of the killing of five ex-Army officers. Advice that conciliation negotiations have received a set-back.	526
Nov. 27 (13)	<i>From the Secretary of State to the Acting Secretary of State (tel.)</i> For the Acting Secretary and Caffery: Request for the controlling facts and conditions to date against recognition of the Grau San Martín regime.	527
Nov. 28 (485)	<i>From the Chargé in Cuba (tel.)</i> Advice that Uruguayan Minister, who has recently been acting as self-appointed mediator in the Cuban political dispute, has announced the formulation of a plan of conciliation.	527
Nov. 28 (24)	<i>From the Acting Secretary of State to the Secretary of State (tel.)</i> Information requested in Secretary's telegram No. 13, November 27.	527
Nov. 29 (17)	<i>From the Secretary of State to the Acting Secretary of State (tel.)</i> Information that Montevideo press reports of an interview allegedly held with the Secretary, in which he was quoted as favoring Cuban recognition, are unfounded.	528
Nov. 29 (486)	<i>From the Ambassador in Cuba (tel.)</i> Information that Welles has resumed charge of the Embassy.	528
Dec. 2 (488)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning attitudes of the Italian, French, British, German, Chilean, Brazilian, and Argentine Governments with regard to recognition of the present Cuban government.	529
Dec. 2 (489)	<i>From the Ambassador in Cuba (tel.)</i> Information from Uruguayan Minister concerning his compromise proposal for formation of a new government; opinion as to acceptability of proposal to opposition leaders and Grau himself.	529
Dec. 5 (494)	<i>From the Ambassador in Cuba (tel.)</i> Attitudes of political leaders and Dr. Grau with regard to acceptance of Uruguayan Minister's proposal; General Menocal's insistence on revolution; activities of Batista.	531
Dec. 5 (38)	<i>From the Acting Secretary of State to the Secretary of State (tel.)</i> Communication of President Roosevelt's position on the question of recognition of the Cuban government by other Latin American nations, and on U. S. policy.	533

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Dec. 7 (500)	<i>From the Ambassador in Cuba (tel.)</i> For the President: Detailed summary of interview with Dr. Grau concerning solution of the country's difficulties; advice of plans being made by certain Army officers, with the full support of Batista, to remove Grau and his government and replace it by a national government under the Presidency of Mendieta.	533
Dec. 8 (501)	<i>From the Ambassador in Cuba (tel.)</i> For the Under Secretary: Welles' decision with regard to the inadvisability of his making any definite plans at the moment for his return to Washington.	536
Dec. 9 (504)	<i>From the Ambassador in Cuba (tel.)</i> Pressure of various factions upon Grau to accept the Uruguayan Minister's revised formula, providing for Mendieta's assumption of the Provisional Presidency upon Grau's retirement from office.	536
Dec. 9 (140)	<i>To the Ambassador in Cuba (tel.)</i> Communication of President Roosevelt's suggestion that Welles should plan to leave Habana on either December 12 or 13 in order that Caffery may reach Habana shortly afterward.	538
Dec. 10 (508)	<i>From the Ambassador in Cuba (tel.)</i> Conference with Dr. Grau, wherein he stated his willingness to come to an immediate agreement with the opposition leaders for the constitution of a concentration Cabinet and his readiness to retire as President immediately.	538
Dec. 11 (509)	<i>From the Ambassador in Cuba (tel.)</i> Meeting, between Grau and leaders of the Unión Nacionalista, ABC, and Marianista Parties, during which an agreement in principle was reached on matters pertaining to a provisional government; Batista's favorable attitude toward agreement.	539
Dec. 11 (511)	<i>From the Ambassador in Cuba (tel.)</i> Decision to leave Habana December 13 in view of the unexpected and complete collapse of negotiations on the political crisis.	539
Dec. 11 (512)	<i>From the Ambassador in Cuba (tel.)</i> Report concerning the breakdown of negotiations, brought about by Grau's change of attitude.	539
Dec. 11 (513)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning statement made to the Associated Press by the Uruguayan Minister implying that Ambassador Welles was responsible for the breakdown of negotiations.	540
Dec. 12 (514)	<i>From the Ambassador in Cuba (tel.)</i> Information regarding Uruguayan Minister's action retracting his statement referred to in telegram No. 513, December 11.	541
Dec. 13 (515)	<i>From the Chargé in Cuba (tel.)</i> Welles' departure from Habana.	541

CUBA

REVOLUTION IN CUBA—Continued

III. THE REGIME OF GRAU SAN MARTÍN—continued

Date and number	Subject	Page
1933 Dec. 14 (517)	<i>From the Chargé in Cuba (tel.)</i> Summary of discussion with Batista and three student leaders, at request of students, in which they asserted stability and nationalistic aims of Grau government and appealed for U. S. recognition.	541
Dec. 18 (524)	<i>From the Chargé in Cuba (tel.)</i> Information given to the press that a recent visit to Grau was to advise him of the expected arrival of Mr. Caffery.	543
Dec. 18 (526)	<i>From the Personal Representative of the President (tel.)</i> Arrival in Habana.	543
Dec. 21 (78)	<i>From the Secretary of State to the Acting Secretary of State (tel.)</i> Request for facts with regard to a Havas despatch from Habana concerning the arrival of the U. S. vessel <i>Wyoming</i> .	543
Dec. 21 (527)	<i>From the Personal Representative of the President (tel.)</i> Conversation with Carlos Hevia of the Unión Nacionalista Party, during which the entire Cuban situation was discussed in both its political and economic aspects.	544
Dec. 21 (110)	<i>From the Acting Secretary of State to the Secretary of State, at Montevideo (tel.)</i> Information that presence of U. S. vessel <i>Wyoming</i> at Habana is a routine matter and not connected in any way with the situation in Cuba.	544
Dec. 21 (148)	<i>To the Personal Representative of the President (tel.)</i> Advice that Márquez Sterling was received by President Roosevelt as a private citizen of Cuba in order that he might present his respects before returning to Cuba to assume the office of Secretary of State.	545
Dec. 26 (530)	<i>From the Personal Representative of the President (tel.)</i> Intention to explore Cuban situation thoroughly; hope that some definite suggestions may be made shortly.	545
Dec. 28 (532)	<i>From the Personal Representative of the President (tel.)</i> Advice that Uruguayan Minister is making another attempt to have his conciliation plan accepted.	545
Dec. 29 (534)	<i>From the Personal Representative of the President (tel.)</i> Information that Uruguayan Minister has made no further progress with his plan; attempts to obtain a clear view of the political situation.	546

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES

1931 June 15 (745)	<i>From the Ambassador in Cuba</i> Representations to President Machado with regard to the proposed issuance by the Cuban Government of a \$10,000,000 internal loan, and subsequent cancelation of project; suggestion for a note to President Machado (text printed) with respect to the U. S. Government's desire to be notified in advance of any decision of the Cuban Government to issue obligations, so that it may decide whether or not a treaty violation is involved.	546
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CUBA

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES—Continued

Date and number	Subject	Page
1931		
June 26 (72)	<i>To the Ambassador in Cuba (tel.)</i> Authorization to present proposed note.	548
June 27 (102)	<i>From the Ambassador in Cuba (tel.)</i> Information that note has been delivered to President Machado.	548
July 9 (773)	<i>From the Ambassador in Cuba</i> Conference with President Machado, wherein he observed that any formal acknowledgment of the Ambassador's note might have to take into consideration the rights of the Cuban Government in the matter.	549
July 10 (776)	<i>From the Ambassador in Cuba</i> Letter from President Machado, July 8 (text printed), acknowledging Ambassador's note regarding future issuance of Cuban Government obligations.	549
1932		
Apr. 20	<i>Memorandum by the Assistant Secretary of State</i> Information concerning a memorandum (text printed) left at the Department by the Cuban Ambassador, Orestes Ferrara, with regard to his Government's consideration of a credit operation in order to satisfy its \$10,000,000 floating debt.	550
May 5 (1152)	<i>From the Chargé in Cuba</i> Report of conversation with Ambassador Ferrara, upon his return to Habana, in regard to the project for funding of the Cuban Government's floating debt; opinions as to advantages and disadvantages of the project.	552
May 12 (57)	<i>From the Chargé in Cuba (tel.)</i> Advice concerning extension of the public works credit; indication that proposed issue of \$10,000,000 Treasury notes has been abandoned by the Cuban Government owing to the lack of revenues as security.	554
Aug. 25 (1328)	<i>From the Ambassador in Cuba</i> Detailed report on Cuban finances and recommendations for an equitable readjustment thereof.	554
Nov. 4	<i>Memorandum by the Assistant Secretary of State</i> Summary of arrangement proposed by the Chase National Bank with regard to the Cuban financial situation.	558
Nov. 29 (122)	<i>From the Ambassador in Cuba (tel.)</i> Advice concerning Chase National Bank's financial plan involving loans from the oil companies in Cuba; objections to proposed plan, and request for instructions.	559
Dec. 3 (119)	<i>To the Ambassador in Cuba (tel.)</i> Assertion that Department desires to take no position in the matter of the proposed Chase plan.	561
Dec. 5 (128)	<i>From the Ambassador in Cuba (tel.)</i> Intention to follow Department's instructions with regard to the Chase financial plan.	562
Dec. 19 (1451)	<i>From the Ambassador in Cuba</i> Advice that Chase plan has been made into law; further advice concerning new tax on the sugar industry included in the law.	563

CUBA

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES—Continued

Date and number	Subject	Page
1933 Jan. 12 (4)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning report of President Machado's decision to issue Treasury certificates in payment of salaries in arrears due the Government employees.	563
Jan. 16 (6)	<i>From the Ambassador in Cuba (tel.)</i> President Machado's refutation of reports of proposed issuance of Treasury certificates.	564
Mar. 14 (9)	<i>To the Ambassador in Cuba (tel.)</i> Information from Chase Bank official that President Machado is planning to declare a moratorium on the foreign debt; request for any information which would bear out this report.	564
Mar. 15 (18)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning campaign of criticism and propaganda against further payments on the principal of the foreign debt; advice that informal inquiry has been made of Secretary of State Ferrara with regard to the debt payments.	565
Mar. 17 (19)	<i>From the Ambassador in Cuba (tel.)</i> Information that publicity campaign advocating moratorium on foreign debt payments is increasing.	566
Mar. 23 (21)	<i>From the Ambassador in Cuba (tel.)</i> Information that President Machado has sent a message to Congress requesting enactment of legislation to establish a partial moratorium on private debts.	566
Mar. 24 (22)	<i>From the Ambassador in Cuba (tel.)</i> Information that a letter has been sent to President Machado concerning expectation that, in accordance with treaty obligations, the U. S. Government will be notified with regard to the proposed issuance of deferred payment certificates under the decree of March 13.	566
Mar. 28 (26)	<i>From the Ambassador in Cuba (tel.)</i> Information that mortgage moratorium bill has been passed by the Senate; Senate passage, also, of a bill authorizing President Machado to arrange for a delay in amortization payments on both foreign and internal Government debts.	567
May 4 (37)	<i>From the Chargé in Cuba (tel.)</i> Receipt of note from Secretary of State Ferrara justifying the issuance of deferred payment certificates under March 13 decree, and asserting that the Cuban Government is under no obligation to give previous notification to the United States.	567
May 11 (2)	<i>From the Ambassador in Cuba</i> Further information regarding Ferrara's note referred to in telegram No. 37, May 4; request for Department's instructions before replying, with respect to Cuban contention that no infraction of treaty provisions is involved. (Footnote: Information that no instructions were issued, that with the signature of the U. S.-Cuban treaty of relations, May 29, 1934, the matter was evidently considered closed.)	568
May 13 (8)	<i>To the Ambassador in Cuba</i> Assumption that a report and recommendations concerning the note referred to in the Chargé's telegram No. 37, May 4, will be made soon.	569

CUBA

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES—Continued

Date and number	Subject	Page
1933 May 22 (54)	<i>From the Ambassador in Cuba (tel.)</i> Information concerning Cuban budget for the fiscal year 1933-34; suggestion for a temporary arrangement to be made by the New York banking interests with the Cuban Government providing for a limited moratorium on sinking fund charges.	570
May 25 (62)	<i>From the Ambassador in Cuba (tel.)</i> President Machado's proposal for certain concessions by U. S. bankers with regard to the use of revenues from public works taxes to pay interest on the bond issue and gold Treasury obligations; observation that any such concessions should be withheld pending President Machado's decision with respect to the political situation.	571
May 30 (67)	<i>From the Ambassador in Cuba (tel.)</i> Request for advice as to what action, if any, the Department has taken in accordance with the suggestion for a moratorium on sinking fund charges.	573
June 2 (37)	<i>To the Ambassador in Cuba (tel.)</i> Opinion that Department cannot take the initiative in making suggestion to the bankers for a suspension of amortization payments due American bondholders.	573
June 3 (38)	<i>To the Ambassador in Cuba (tel.)</i> From Caffery: Information concerning conversation with representatives of Chase and National City Banks regarding postponement of proposed concessions to the Cuban Government.	573
June 9 (76)	<i>From the Ambassador in Cuba (tel.)</i> Advice from Manager of Chase Bank that the Cuban Government and the bankers have apparently reached a deadlock in their efforts toward solving the Cuban financial dilemma.	574
June 14 (83)	<i>From the Ambassador in Cuba (tel.)</i> Secretary of the Treasury's information that the Cuban Government would be unable to make any payments this month toward arrears in salaries of civilian Government employees; suggested action to be taken toward remedying the situation.	575
June 30 (53)	<i>From the Ambassador in Cuba</i> Synopsis of terms of contract entered into between the Cuban Government and the Chase Bank for extension of the bankers' credit and coordination of interest and maturity payments on this and other public works obligations. (Footnote: Information that contract was made into law, July 5, 1933.)	576
Aug. 20 (175)	<i>From the Ambassador in Cuba (tel.)</i> Views and recommendations with regard to the restoration of Cuban economic prosperity.	578
Aug. 21 (176)	<i>From the Ambassador in Cuba (tel.)</i> Interview with President Céspedes, who said that he felt it was desirable that a commission of American financial experts be sent to Cuba to assist the Government in finding a solution to its financial problem.	580

CUBA

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES—Continued

Date and number	Subject	Page
1933 Aug. 23 (182)	<i>From the Ambassador in Cuba (tel.)</i> Céspedes' request that American experts be sent to Habana as quickly as possible; request for advice from the Department as to a decision in the matter. (Footnote: Information that on August 31, 1933, three American financial experts were requested to proceed at once to Habana.)	581
Aug. 31 (147)	<i>To the Ambassador in Cuba</i> Transmittal of memorandum (text printed) from the Under Secretary of the Treasury to the Assistant Secretary of State with regard to recommendations contained in Ambassador's telegram No. 175, August 20.	582
Sept. 5	<i>Preliminary Report on Cuban Finances Prepared by American Financial Experts</i> Detailed estimate of financial possibilities available in Cuba together with recommended action to meet the financial emergency.	583

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931 AND FURTHER SUSPENSION OF AMORTIZATION PAYMENTS ON THE EXTERNAL DEBT OF THE DOMINICAN REPUBLIC

1932 Feb. 20 (250)	<i>From the Minister in the Dominican Republic</i> Account of conversation with President Trujillo, in which a special effort was made to insure the resumption of direct personal contact between the President and W. E. Dunn, Financial Adviser to the Dominican Government, which had been interrupted recently, and certain aspects of the Government's fiscal policy were discussed.	589
April 9 (43)	<i>To the Minister in the Dominican Republic</i> Memorandum (text printed) setting forth Department's views concerning status of the Financial Adviser and measures deemed essential for carrying out the Emergency Plan of October 1931.	591
April 19 (352)	<i>From the Minister in the Dominican Republic</i> Request for Department's views as to the bearing of article 3 of the Convention of December 27, 1924, upon an eventual funding of the Dominican floating debt.	596
June 1	<i>To the Minister in the Dominican Republic</i> Department's view that a formal funding operation cannot be undertaken by the Dominican Government without raising the issue involved in article 3. Request for further views and suggestions of the Minister on the general problem of the floating debt.	598
June 7	<i>From the Minister in the Dominican Republic</i> Further views on the floating debt question; opinion that the Emergency Law may be a more real obstacle to the proposed funding of the debt than article 3 of the 1924 convention.	600
June 28	<i>Memorandum by Mr. Winthrop R. Scott of the Division of Latin American Affairs</i> Summary of conversations held with Mr. Dunn dealing with various questions of Dominican finances.	602

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1932 July 20 (498)	<i>From the Minister in the Dominican Republic</i> Advice that President Trujillo is giving serious consideration to advisability of an early payment into the sinking fund of the foreign debt under the Emergency Law.	605
Aug. 30 (97)	<i>To the Minister in the Dominican Republic</i> Comment on a suggestion by Mr. Dunn relative to an exchange plan to be put into effect in case of a transfer of the Fiscal Agency from Lee, Higginson and Co. to another banking firm; opinion that such a plan might not be in the interest of the bondholders.	606
Sept. 6 (594)	<i>From the Minister in the Dominican Republic</i> Advice that Mr. Dunn's idea was that if a satisfactory bond exchange plan could be worked out, it was desirable that the banking firm acting as Fiscal Agent should cooperate in its execution.	608
Sept. 12	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Receipt of information from the Dominican Minister that President Trujillo will remit \$50,000 to the Fiscal Agent for purchase of bonds of the Dominican debt as part of probable surplus from the Emergency Law.	608
Oct. 3	<i>Memorandum by Mr. Winthrop R. Scott of the Division of Latin American Affairs</i> Record of conversation between Mr. Dunn and Assistant Secretary of State Bundy on the Dominican financial situation; understanding that Mr. Dunn will prepare a statement for the Department showing details of a possible new arrangement whereby additional funds would be made available to the Dominican Government for reconstruction and rehabilitation purposes.	609
Oct. 19 (645)	<i>From the Minister in the Dominican Republic</i> Information that President Trujillo will accept Mr. Dunn's recommendation of the Guaranty Trust Co. of New York as the new Fiscal Agent; also that Mr. Dunn is working on a plan for eventual modification of the Emergency Law so that there will be increased funds for reconstruction, and a downward adjustment of the rate of amortization of the funded debt.	611
Nov. 15 (677)	<i>From the Minister in the Dominican Republic</i> Advice that Dominican Government has submitted a plan whereby the emergency procedure now in force will be extended with modifications until January 1, 1935.	612
Nov. 18 (35)	<i>To the Minister in the Dominican Republic (tel.)</i> Suggestion that detailed analysis be made prior to any final decision as to amendment of the Emergency Law.	614
Nov. 19 (60)	<i>From the Minister in the Dominican Republic (tel.)</i> Opinion that the United States would be justified in accepting the Dominican view that further diversion of monies from amortization to apply them to a program of physical rehabilitation is necessary.	614

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1932 Nov. 22	<i>Memorandum by the Assistant Secretary of State</i> Conversation with Mr. Dunn recommending that certain measures be taken before any change is made in the Emergency Law—namely, some bondholders' representation and an independent investigation.	615
Nov. 25 (685)	<i>From the Minister in the Dominican Republic</i> Probability that editorial comment appearing in <i>Listin Diario</i> advocating suspension of interest payments on foreign debt was officially inspired.	617
Dec. 8	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with the Dominican Minister, who read a telegram from the Foreign Minister (text printed), indicating that President Trujillo has declared emphatically that his Government does not intend to interrupt interest payment on the debt.	617
Dec. 14 (715)	<i>From the Minister in the Dominican Republic</i> Advice that Lee, Higginson and Co. has resigned as Fiscal Agent and that arrangements for transfer of the Agency to the Guaranty Trust Co. will shortly be completed; further advice that the proposed legislation to amend the Emergency Law is in abeyance for the present.	618
Dec. 24	<i>From the Dominican Minister</i> Letter from the Dominican Government to the new Fiscal Agent (text printed), setting forth the need for a permanent program which will be mutually advantageous to the Government and to the bondholders, the general features of such a program being (1) extension of the Emergency Law and possible amendment thereof, and (2) modification of the present loan contracts.	620
1933 Feb. 28 (827)	<i>From the Minister in the Dominican Republic</i> Memorandum of a conversation with Mr. Dunn (text printed) outlining his recommendations with respect to a plan for further procedure in readjustment of the external debt—a plan embodying (1) formation of an Advisory Committee to study the entire external debt question with a view to formulation of an adjustment plan, and (2) legislative action by the Government authorizing the Executive Power to deal with the Committee.	624
Mar. 3 (832)	<i>From the Minister in the Dominican Republic</i> Information that Mr. Dunn has submitted his recommendations to President Trujillo.	626
Mar. 10 (845)	<i>From the Minister in the Dominican Republic</i> Advice that President Trujillo will make a final decision shortly with regard to the formal recognition of the Advisory Committee which was formed at the request of the Dominican Government to the Fiscal Agent.	627
Apr. 27 (947)	<i>From the Minister in the Dominican Republic</i> Opinion as to the Dominican wish for an extension of the Emergency Law for a period of 5 years.	628

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1933 May 1	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Mr. Dunn concerning the proposed Dominican plan for dealing with the financial situation.	629
May 10	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Mr. Dunn, during which discussion centered on the fact that Trujillo refuses to recognize the Advisory Committee without some assurance from the United States that it will be unobjectionable to do so.	630
May 13	<i>To the Minister in the Dominican Republic</i> Information that Joseph E. Davies is en route to Santo Domingo at the request of President Trujillo, and that there is a possibility of his being appointed attorney for the Dominican Government.	631
May 22 (24)	<i>From the Minister in the Dominican Republic (tel.)</i> Advice that Mr. Davies has consented to act as General Counsel for the Dominican Government in financial and related matters.	632
June 3 (1010)	<i>From the Minister in the Dominican Republic</i> Analysis of the situation in connection with Trujillo's intention to dispense with the services of Mr. Dunn in view of the recent employment of Mr. Davies as General Counsel; suggestion that Department make an informal statement to the Dominican Government on the subject.	632
June 14	<i>Memorandum by Mr. Joseph F. McGurk of the Division of Latin American Affairs</i> Conversation between Mr. Davies, Mr. Schoenfeld, Minister to the Dominican Republic, and officers of the Department with regard to recent developments in the Dominican financial situation.	636
June 22 (1036)	<i>From the Chargé in the Dominican Republic</i> Information that Oliver P. Newman, who is to succeed Mr. Dunn as Special Emergency Agent and probably also as Financial Adviser, has arrived in Santo Domingo and that a contract similar to the one held by Mr. Dunn is being drawn up.	638
July 19	<i>To President Roosevelt</i> Memorandum (text printed) analyzing the Dominican situation with regard to loans and U. S. responsibility toward the bondholders.	639
July 29	<i>From the Minister in the Dominican Republic, Temporarily in the United States</i> Opinion with regard to practicable settlement of Dominican debt problem; request for clear definition of U. S. policy on the international aspects of the problem before returning to the Dominican Republic.	640

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1933 Aug. 16	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation between Mr. Newman, Mr. Schoenfeld, and officers of the Department, wherein view was expressed that the Dominican Government should reach an agreement with the bondholders before attempting to solve the financial problem.	642
Aug. 25 (199)	<i>To the Chargé in the Dominican Republic</i> Instructions to make appropriate representations to the Dominican Government concerning application of the surplus in the emergency fund to amortization of the funded debt.	643
Sept. 2 (1139)	<i>From the Minister in the Dominican Republic</i> Information dealing with the possibility of the remittance by the Fiscal Agents of at least a substantial portion of the surplus accumulated.	643
Sept. 6 (35)	<i>From the Minister in the Dominican Republic (tel.)</i> Report that official representations may not be necessary at this time in view of the fact that spontaneous action may shortly be taken by the Government.	645
Sept. 13 (37)	<i>From the Minister in the Dominican Republic (tel.)</i> Probability that a decision as to the remittance from surplus in the emergency fund will be taken in the next day or two since all desiderata of the Government have been obtained.	646
Sept. 15 (25)	<i>To the Minister in the Dominican Republic (tel.)</i> Newman's report of the Dominican desire to proceed with refunding plans in order to utilize some of the present surplus for improvement purposes; Department's view that substantial remittance from surplus should be made for amortization purposes.	646
Sept. 15 (1167)	<i>From the Minister in the Dominican Republic</i> Note from the Foreign Ministry (text printed), advising of decision of the Government to allocate \$100,000 of the surplus to the liquidation of bonds and to keep the remainder as a trust fund pending a permanent readjustment of the foreign debt.	647
Sept. 18 (1169)	<i>From the Minister in the Dominican Republic</i> Conversation with Dominican officials concerning various aspects of the financial situation; opinion that either the bondholders or the Department may require a renewed showing of necessity before a decision is reached as to what may be a fair basis for the "permanent" readjustment of the external debt now contemplated by the Government.	648
Oct. 18	<i>From Mr. Joseph E. Davies and Mr. Oliver P. Newman</i> Opinion that a new Emergency Law should be enacted, and reasons for reaching this conclusion.	652
Nov. 4 (1263)	<i>From the Minister in the Dominican Republic</i> Discussion of U. S. rights and obligations under the Convention of 1924 and of bases of possible future U. S. policy relative to the Dominican funded debt; opinion that the forthcoming expiration of the Emergency Law calls for a notification to Dominican Government of U. S. position.	655

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1933 Nov. 7	<p><i>Statement Made by the Assistant Secretary of State in the Presence of the Secretary of State and Messrs. Joseph E. Davies and Oliver P. Newman</i></p> <p>Suggestion that the Emergency Law be extended for 6 months so that the Government may confer with the bondholders and with the Central Bondholders Committee now being organized; also that Dominican expenditures be cut wherever possible.</p>	659
Nov. 8	<p><i>To Mr. Joseph E. Davies</i></p> <p>Opinion that it is not within the province of the United States to express approval of or acquiescence in any action that may have the effect of varying the contracts of the Dominican Government with those who hold its bonds.</p>	659
Nov. 13	<p><i>From the Dominican Minister</i></p> <p>Dominican Government's desire to use all possible funds for a limited period of time for rehabilitation purposes; its decision to take up the matter of adjustment of the situation with the bondholders through the Central Bondholders Committee, and to extend the Emergency Law for 6 months.</p>	660
Nov. 14 (47)	<p><i>From the Minister in the Dominican Republic (tel.)</i></p> <p>Information that the Senate has passed a bill extending the Emergency Law.</p>	665
Nov. 21 (49)	<p><i>From the Minister in the Dominican Republic (tel.)</i></p> <p>Information that President Trujillo on November 16 signed the bill extending the Emergency Law, thereby completing enactment.</p>	665
Nov. 24 (1316)	<p><i>From the Minister in the Dominican Republic</i></p> <p>Suggestion that if Department intends to make any observations as to the extension of the Emergency Law, it would be fairer to the Government to do so prior to enactment of the 1934 budget law, since the Government regards the extension measure as a necessary preliminary to formulation of the budget.</p>	666
Nov. 28	<p><i>To the Dominican Minister</i></p> <p>Advice that the Department has no authority to vary or sanction the variation of the terms of the Convention which provides for the service of the Dominican external debt.</p>	667
Dec. 13 (1343)	<p><i>From the Minister in the Dominican Republic</i></p> <p>Note to the Foreign Minister (text printed), advising that the United States considers that any other disposition of the surplus than that provided for by the Emergency Law itself should receive the express consent of the bondholders.</p>	667
Dec. 27 (1360)	<p><i>From the Minister in the Dominican Republic</i></p> <p>Conversation with Foreign Minister, who stated that advice given the Government by Dr. Cestero, lately delegate to the Seventh Pan American Conference, indicated that Secretary of State Hull had requested deferment of further action with regard to external debt readjustment until he had returned to Washington and that negotiations had been deferred accordingly; intimation that Assistant Secretary of State Moore and Mr. Davies would work on the matter in cooperation with Secretary Hull.</p>	668

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931, ETC.—Continued

Date and number	Subject	Page
1934 Jan. 10 (224)	<i>To the Minister in the Dominican Republic</i> Advice that the Department has received no information whatever from the Secretary of State confirming Dr. Cestero's statement; that previous correspondence with Mr. Davies and with the Dominican Legation completely negative the ideas expressed by the Foreign Minister.	670

ECUADOR

EFFORTS BY THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO ECUADORAN EXCHANGE RESTRICTIONS

1933 July 29 (237)	<i>To the Minister in Ecuador</i> Instructions to advise the Foreign Minister informally that, while the United States will not desire to obtain an agreement similar to the proposed clearing agreements with Spain and France relating to Ecuadoran exchange control, it will expect practical most-favored-nation treatment for American interests equivalent to that obtained by other countries through clearing agreements.	672
July 28 (25)	<i>From the Minister in Ecuador (tel.)</i> Information from Foreign Office concerning clearing agreement concluded between France and Ecuador.	672
Aug. 28 (1108)	<i>From the Minister in Ecuador</i> Advice that informal representation was made to the Foreign Office in accordance with Department's instructions of July 29; further information concerning pending legislation on exchange control, the agreement with France, and negotiations with Spain.	673
Sept. 12 (1130)	<i>From the Minister in Ecuador</i> Opinion that in view of political situation, further discussion of most-favored-nation treatment would be useless for the present; information that no definitive action has been taken with regard to the exchange control bill. (Footnote: Information that no further representations were made; that a Legislative decree partially abrogating exchange control was passed by the Ecuadoran Congress on November 27, 1933.)	675

EL SALVADOR

REFUSAL OF THE UNITED STATES TO RECOGNIZE THE MARTÍNEZ REGIME IN EL SALVADOR

1933 Mar. 2 (889)	<i>From the Chargé in Guatemala</i> Foreign Minister's desire to make known his Government's willingness to cooperate in any U. S. policy with respect to recognition of General Martínez of El Salvador; request for Department's assurance that no change in its policy is contemplated.	678
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EL SALVADOR

REFUSAL OF THE UNITED STATES TO RECOGNIZE THE MARTÍNEZ REGIME IN EL SALVADOR—Continued

Date and number	Subject	Page
1933 June 2 (157)	<i>From the Ambassador in Mexico</i> Informal conversation with Foreign Minister Puig, who said that he had been asked by the Salvadoran Minister in Mexico to use his friendly offices in order to bring about U. S. recognition of El Salvador.	679
June 16 (230)	<i>From the Ambassador in Mexico</i> Transmittal of correspondence with Foreign Minister concerning his offer of mediation between the United States and El Salvador; suggestion that Dr. Puig be allowed to take such steps as he wishes with a view to the restoration of friendly relations between the United States and El Salvador.	680
July 13	<i>Memorandum by the Chief of the Division of Latin American Affairs</i> Conversation with Chilean Chargé, who said that his Government was considering recognition of the Martínez regime, and who was advised of unchanged U. S. position, interpreting the 1923 General Treaty of Peace and Amity as barring Martínez from recognition.	684
July 13 (320)	<i>From the Chargé in El Salvador</i> Information concerning news items alleging that certain Latin American diplomats in Washington are attempting to obtain the Department's approval of the calling of a conference for the purpose of revising the 1923 treaty; request for information as to truth of such statement.	684
July 17 (97)	<i>To the Ambassador in Mexico</i> Instructions to express appreciation of Dr. Puig's offer of mediation, to reiterate U. S. desire to maintain the 1923 treaty in force, and to advise him that this view is shared by Honduras, Guatemala, and Nicaragua.	685
July 26 (404)	<i>From the Ambassador in Mexico</i> Information that Foreign Minister has been informed of U. S. view.	688
Aug. 16 (133)	<i>To the Chargé in El Salvador</i> Advice that the Department has not recently been approached by any "Latin American diplomats" for the purpose of obtaining a revision of the 1923 treaty, and assurance that no change has been made in U. S. policy with respect to Martínez.	688
Sept. 16 (1636)	<i>From the Minister in Costa Rica</i> Information that occasional publicity concerning a future conference of Central American Republics is inspired and paid for by General Martínez; opinion that Costa Rica will recognize Martínez as soon as its denunciation of the 1923 treaty becomes effective.	689
Oct. 31 (30)	<i>To the Minister in Costa Rica (tel.)</i> Observation that Costa Rica has freely exercised its right to denounce the 1923 treaty, and instructions to make no comment or suggestion.	690

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, HAITIANIZATION OF THE GARDE, AND WITHDRAWAL OF AMERICAN MARINES; AGREEMENT OF AUGUST 7, 1933, AND FURTHER NEGOTIATIONS FOR ENDING AMERICAN FINANCIAL CONTROL

Date and number	Subject	Page
1932		
Nov. 11 (128)	<i>From the Minister in Haiti (tel.)</i> Conversation with President Vincent, wherein he agreed to withdraw a moratorium proposal submitted previously to the Minister by the Secretary of State for Foreign Affairs; Haitian desire that funds be made available to start work on the Artibonite irrigation project; Minister's recommendation that De la Rue, Financial Adviser to the Haitian Government, be requested to resume his negotiations for a loan from the National City Bank.	691
Nov. 14 (75)	<i>To the Minister in Haiti (tel.)</i> Department's approval of Minister's action in securing withdrawal of Haitian moratorium proposal; viewpoint with reference to funds for the Artibonite project.	692
Nov. 19 (129)	<i>From the Minister in Haiti (tel.)</i> Receipt of Haitian note requesting U. S. approval and assistance in an effort to obtain a loan from the National City Bank to provide for a series of public works; advice that note asks that the United States authorize the expenditure of \$500,000 from Haitian Treasury reserves to begin the public works contemplated.	693
Dec. 6 (132)	<i>From the Minister in Haiti (tel.)</i> Request for Department's views with regard to the Haitian Government's application for permission to increase the national debt in order to accomplish specified productive public works.	694
Dec. 8 (10)	<i>To the Minister in Haiti</i> Draft note (text printed) to be sent to the Haitian Government giving the Department's viewpoint on the granting of approval of the Haitian request for an increase in the public debt.	694
Dec. 9 (22)	<i>From the Minister in Haiti</i> Views and recommendations concerning Department's position with regard to the Haitian request for approval of a loan and the expenditure of funds for public works.	698
Dec. 15 (134)	<i>From the Minister in Haiti (tel.)</i> Information that De la Rue has elaborated with U. S. bankers a plan for a revolving credit of one million dollars for Artibonite development; request for instructions concerning explanation to be made to President Vincent with regard to Department's attitude toward final approval of a new loan to Haiti.	702
Dec. 17 (79)	<i>To the Minister in Haiti (tel.)</i> Instructions to withhold delivery of note transmitted with instruction No. 10, December 8, until further notice, but to discuss with President Vincent the Department's view regarding financial administration after 1936.	702
Dec. 21 (136)	<i>From the Minister in Haiti (tel.)</i> Advice that Minister plans to set forth Department's views contained in telegram No. 79, December 17, in a forthcoming conversation with President Vincent; further advice with regard to financing of capital construction in Haiti.	704

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC.; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1932 Dec. 23 (81)	<i>To the Minister in Haiti (tel.)</i> Department's maintenance of its views with regard to the setting up of a revolving fund for financing the Artibonite project.	705
Dec. 24 (137)	<i>From the Minister in Haiti (tel.)</i> President Vincent's assurance that if a \$400,000 credit is made available for beginning work on the Artibonite project, he will resubmit the treaty of September 3, 1932, with certain changes, to Parliament for ratification; Haitian desire also for U. S. approval of a \$2,000,000 long-term loan and a \$200,000 advance from cash reserves for public works.	706
Dec. 26 (32)	<i>From the Minister in Haiti</i> Further details on the Haitian proposals outlined in telegram No. 137, December 24, and personal opinion on various aspects.	706
Dec. 28 (82)	<i>To the Minister in Haiti (tel.)</i> Department's desire that Legation give no assurances to the Haitian Government regarding any sum to be made available from the cash reserves without first consulting the Department.	710
1933 Jan. 2 (34)	<i>From the Minister in Haiti</i> Review of discussions held with the Haitian Government regarding a \$400,000 short-term loan offered Haiti by the National City Bank; Minister's suggestion for a note to be sent by the Department embodying its views on such a loan.	710
Jan. 9 (18)	<i>To the Minister in Haiti</i> Advice as to Department's viewpoint with respect to any Haitian loan proposition.	713
Jan. 30 (60)	<i>From the Minister in Haiti</i> Information concerning a draft note tentatively submitted by the Haitian Government, requesting U. S. approval of the \$400,000 loan, and withdrawn upon Minister's objections.	714
Feb. 1 (62)	<i>From the Minister in Haiti</i> Foreign Minister's note (text printed), requesting U. S. approval of proposed \$400,000 revolving credit.	718
Feb. 10 (10)	<i>From the Minister in Haiti (tel.)</i> Conversation with President Vincent, De la Rue, and the Foreign and Finance Ministers with regard to the prospect of a decision by the United States on the \$400,000 loan; advice that National City Bank plans to forward proposed loan contract for submission to the Haitian Government shortly.	720
Feb. 14 (4)	<i>To the Minister in Haiti (tel.)</i> Instructions to inform President Vincent that Department will give immediate consideration to the credit proposal as soon as it is submitted by the bankers; further instructions to urge that Haitian Government submit its proposals for modification of the treaty of September 3, 1932, as soon as possible.	721

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1933 Feb. 16 (76)	<i>From the Minister in Haiti</i> Information regarding certain recommendations made by the Financial Adviser, and request for instructions with regard to his recommendation that an immediate advance of \$100,000 from treasury reserves be authorized to start work on the Artibonite project.	721
Feb. 22 (79)	<i>From the Minister in Haiti</i> Draft (text printed) of an amended treaty containing the changes proposed by the Haitian Government in the treaty of September 3, 1932.	722
Feb. 25 (8)	<i>To the Minister in Haiti (tel.)</i> Department's inquiry with regard to status of Haitian negotiations with the National City Bank; further inquiries with respect to Financial Adviser's recommendations as referred to in despatch No. 76, February 16; request that Financial Adviser submit a complete description of his proposal for authorization of an immediate advance of \$100,000.	728
Feb. 27 (14)	<i>From the Minister in Haiti (tel.)</i> Answer to Department's inquiry with regard to (1) status of negotiations between Haitians and National City Bank, and (2) Haiti's proposed modifications for the agreement concerning financial control.	730
Feb. 28 (15)	<i>From the Minister in Haiti (tel.)</i> Further information in reply to Department's inquiries.	730
Mar. 10 (23)	<i>From the Chargé in Haiti (tel.)</i> Advice that Financial Adviser has submitted report requested in telegram No. 8, February 25; Chargé's summary of report and his recommendation that authorization for the \$100,000 credit be given the Haitian Government.	733
Mar. 17 (15)	<i>To the Chargé in Haiti (tel.)</i> Authorization for the \$100,000 credit.	734
Apr. 3	<i>Memorandum Prepared by the Division of Latin American Affairs</i> Summary of general principles underlying U. S. policy toward Haiti; annexed memorandum (text printed) entitled "Policy in Haiti", giving in more detail the manner in which such principles would be applied in connection with the treaty now under negotiation with Haiti revising in certain respects the treaty of September 3, 1932.	735
Apr. 13 (27)	<i>To the Minister in Haiti (tel.)</i> Instructions to proceed in accordance with memorandum of policy in Haiti (<i>supra</i>).	738
Apr. 25 (27)	<i>From the Minister in Haiti</i> Report of conversation with Foreign Minister, who was given the U. S. draft of a treaty with Haiti.	738

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC.; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1933 Apr. 28 (31)	<i>From the Minister in Haiti</i> Conversation with President Vincent and Foreign Minister, who expressed their belief that it would be impossible to secure Legislature's ratification of a treaty such as the draft text submitted by the United States; President Vincent's plan for dealing with Protocols A and B of the September 3 treaty as two separate units, reaching an accord on each separately.	739
May 12 (49)	<i>From the Minister in Haiti</i> Report of conversations with Finance Minister and President Vincent on treaty revision; request for Department's views as to the general proposal to conclude separate accords on pending issues between Haiti and the United States.	741
May 17 (52)	<i>From the Minister in Haiti (tel.)</i> Note from Foreign Minister (text printed) regarding Haitian Government's plan to negotiate two separate accords on military and financial matters with the United States.	744
June 5 (69)	<i>From the Minister in Haiti</i> President Vincent's desire to be able to announce the conclusion of an executive military accord with the understanding that an accord on future financial administration will be reached after the present Haitian legislative session.	745
June 17 (63)	<i>To the Minister in Haiti</i> Instructions to make oral inquiry of the Foreign Minister with regard to the terms of the proposed protocol covering Haitianization of the Garde as well as the exact terms of the written assurances which the Haitians will give as to the form of financial control to be embodied in a subsequent protocol.	746
June 22 (85)	<i>From the Minister in Haiti</i> Report of conversation with Foreign Minister, during which oral representations in accordance with Department's instruction No. 63, June 17, were made; Minister's submission of his own recommendation with regard to an accord covering financial control.	748
June 26 (88)	<i>From the Minister in Haiti</i> Transmittal of a Haitian draft agreement covering financial control after 1936.	752
July 11 (43)	<i>To the Minister in Haiti (tel.)</i> Department's views with regard to Haitian draft financial agreement.	753
July 12 (71)	<i>From the Minister in Haiti (tel.)</i> Advice that Minister expects shortly to receive text of an accord covering financial control which the Haitian Government is willing to sign; Minister's request that he be allowed to come to Washington for consultation. (Footnote: Information that Minister was instructed to report at Washington for consultation at his earliest convenience.)	753
Aug. 4 (52)	<i>To the Minister in Haiti (tel.)</i> Explanation of delay in reaching final agreement on the accord for financial control.	753

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC.; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1933 Aug. 4 (88)	<i>From the Minister in Haiti (tel.)</i> Opinion that financial accord should be signed and published as soon as possible. (Footnote: Information that on August 5 the Minister was authorized to sign the agreement.)	754
Aug. 7 (91)	<i>From the Minister in Haiti (tel.)</i> Information that agreement has been signed and interpretative notes exchanged.	754
Aug. 7	<i>Agreement Between the United States of America and Haiti for the Haitianization of the Garde and Withdrawal of Military Forces From Haiti and Financial Arrangement</i> Text of accord, signed at Port-au-Prince.	775
Aug. 7	<i>The American Minister in Haiti to the Haitian Secretary of State for Foreign Affairs</i> Information concerning U. S. interpretation of article VIII of the Agreement signed between the United States and Haiti; further information regarding purpose of the financial arrangement included in the Agreement.	762
Aug. 8 (62)	<i>To the Minister in Haiti (tel.)</i> Advice concerning Secretary's approval expressed at a press conference with respect to the Haitian Agreement.	762
Aug. 9 (97)	<i>From the Minister in Haiti (tel.)</i> Information that Haitians have received publication of the Agreement with unanimous satisfaction.	762
Sept. 12 (85)	<i>To the Chargé in Haiti</i> Department's views with regard to Haitian Government's proposal to use repressive measures in order to curb activities of the opposition press, which recently made false allegations with respect to the Agreement.	763
Nov. 16	<i>From the President of Haiti to President Roosevelt</i> View that financial provisions of the August 7 agreement are infringements upon the sovereignty of the Haitian nation; hope that the United States may eventually be able to renounce its exercise of financial control in Haiti.	764
Nov. 22	<i>Memorandum by Mr. Donald R. Heath of the Division of Latin American Affairs</i> Conversation with Haitian Minister relative to President Vincent's letter to President Roosevelt; Haitian Minister's opinion that publication of the letter and its reply would have a favorable effect at the forthcoming Pan American Conference at Montevideo.	766
Nov. 29	<i>From President Roosevelt to the President of Haiti</i> Reply to President Vincent's letter of November 16; reference to U. S. obligation in connection with financial administration in Haiti incurred under the treaty of 1915, the protocol of 1919, and the agreement of August 7.	767

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC.; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1933 Nov. 30 (128)	<p><i>From the Minister in Haiti (tel.)</i></p> <p>Advice concerning Foreign Minister's receipt of a telegram from a member of the Haitian delegation to the Pan American Conference, concerning a contemplated change in American policy with regard to Haitian financial control; President Vincent's desire to make public his letter to President Roosevelt of November 16 and certain other documents in order to offset false claims by his opponents regarding this new development; request for instructions.</p>	768
Dec. 1 (129)	<p><i>From the Minister in Haiti (tel.)</i></p> <p>Further information from President Vincent with regard to reported conversations held between Secretary of State Hull and Haitian delegate, Barau, while en route to Montevideo, concerning the abolition of financial control in Haiti; probability that documents referred to in telegram No. 128, November 30, will be made public in Haiti immediately.</p>	769
Dec. 1 (83)	<p><i>To the Minister in Haiti (tel.)</i></p> <p>Advice concerning exchange of messages between Secretary and the Department with regard to the Haitian delegation's petition requesting the early withdrawal of American financial administration in Haiti; Department's viewpoint regarding a Haitian arrangement worked out in agreement with the bondholders.</p>	770
Dec. 1 (130)	<p><i>From the Minister in Haiti (tel.)</i></p> <p>Information that the documents referred to in telegram No. 128, November 30, have been published.</p>	772
Dec. 4 (131)	<p><i>From the Minister in Haiti (tel.)</i></p> <p>Advice from President Vincent concerning telegram from Barau, December 3 (text printed), with regard to further developments in his exchange of views with Secretary Hull. Inquiry as to whether text of President Roosevelt's reply to President Vincent's letter of November 16 will be released.</p>	772
Dec. 4 (85)	<p><i>To the Minister in Haiti (tel.)</i></p> <p>Information that material relative to the Haitian request for abolition of financial control was given to the press for background purposes; instructions to telegraph Department following delivery of Roosevelt's reply to Vincent in order that text may be made public; transmission of a telegram (text printed) from the Secretary concerning discussion with Haitian delegation of proposal for the substitution of the National Bank of Haiti in place of the Fiscal Representative for service of the Haitian debt.</p> <p>(Footnote: Information that text of President Roosevelt's reply to President Vincent was released to the press on December 5.)</p>	772
Dec. 5 (42)	<p><i>To the American Delegation to the Seventh International Conference of American States</i></p> <p>Advice that the National City Bank has offered to sell the entire capital stock of the National Bank of Haiti to the Haitian Government.</p>	773

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, ETC.; AGREEMENT OF AUGUST 7, 1933, ETC.—Continued

Date and number	Subject	Page
1933 Dec. 7 (135)	<i>From the Minister in Haiti (tel.)</i> Request to be informed of the facts concerning a reported exchange of notes between Barau and the Secretary and to receive the texts of the notes, if such exchange was made.	774
Dec. 8 (88)	<i>To the Minister in Haiti (tel.)</i> Advice, in reply to Minister's No. 135, that Department's telegrams No. 83, December 1, and No. 85, December 4, transmitted all the information available to date.	774
Dec. 14 (212)	<i>From the Minister in Haiti</i> Receipt from President Vincent of an oral statement (text printed) handed to the Haitian delegation to the Pan American Conference by a member of the American delegation, embodying Secretary Hull's recommendations with respect to the Haitian financial control; assumption that, since no instructions have been received in accordance with these recommendations, it was the Department's intention to include them in the text of President Roosevelt's reply to President Vincent.	775
1934 Jan. 9 (122)	<i>To the Minister in Haiti</i> Review of exchange of communications between the Secretary and the Haitian delegation and between the Secretary and the Department with regard to the Haitian request for abolition of financial control; Department's commendation for the tactful and correct manner in which Minister interpreted telegraphic instructions in the premises.	777

EXCHANGE OF NOTES, OCTOBER 31, 1933, WITH RESPECT TO THE HAITIAN BUDGET AND ACCOUNTING LAW OF JULY 4, 1933

1933 Apr. 8 (40)	<i>From the Chargé in Haiti (tel.)</i> Finance Minister's intention to omit special article 36, confirming powers of the Financial Adviser, from text of the permanent finance law drafted by the Financial Adviser when such law is resubmitted to the Haitian Legislature; recommendation that Financial Adviser be authorized to approve the law upon the condition that the Haitian Government will confirm in writing the powers mentioned in article 36; request for instructions.	778
Apr. 12 (45)	<i>From the Minister in Haiti (tel.)</i> Request that Department telegraph its decision as early as possible concerning confirmation of the Financial Adviser's powers through exchange of notes.	778
Apr. 13 (26)	<i>To the Minister in Haiti (tel.)</i> Nonobjection to omission of article 36 from the finance law, provided powers of the Financial Adviser are fully confirmed in an exchange of notes.	779
Sept. 28 (106)	<i>From the Chargé in Haiti (tel.)</i> Financial Adviser's recommendation that United States propose an exchange of notes with Haiti relating to certain provisions of the Budget and Public Accounting Law of July 4, 1933, and that provision be made in such notes with regard to the functions of the Financial Adviser; request for authorization to propose an exchange of notes to the Foreign Minister.	779

HAITI

EXCHANGE OF NOTES, OCTOBER 31, 1933, WITH RESPECT TO THE HAITIAN BUDGET
AND ACCOUNTING LAW OF JULY 4, 1933—Continued

Date and number	Subject	Page
1933		
Oct. 4 (72)	<i>To the Chargé in Haiti (tel.)</i> Authorization for and instructions concerning proposed exchange of notes.	780
Oct. 5 (108)	<i>From the Chargé in Haiti (tel.)</i> Advice concerning effect of the removal of special article 36 from the finance law of July 4, 1933; Chargé's view that a provision regarding the Financial Adviser's functions should be included in the proposed exchange of notes; request for instructions.	780
Oct. 9 (73)	<i>To the Chargé in Haiti (tel.)</i> Authorization to include the provision regarding Financial Adviser's functions; inquiry as to whether exchange of notes authorized in telegram No. 26, April 13, was effected.	781
Oct. 10 (109)	<i>From the Chargé in Haiti (tel.)</i> Advice in answer to Department's inquiry that exchange of notes was not effected.	782
Oct. 20 (161)	<i>From the Minister in Haiti</i> Draft note (text printed) submitted to the Foreign Minister on October 10 concerning the proposed correction of certain omissions in the Finance Law of July 4.	782
Oct. 27 (114)	<i>From the Minister in Haiti (tel.)</i> Advice that Foreign Minister has accepted Legation's draft note, and request for authorization to effect exchange of notes. (Footnote: Information that authorization was granted in telegram No. 114, October 30.)	783
Nov. 4 (181)	<i>From the Minister in Haiti</i> Foreign Minister's note, October 31 (text printed), in reply to Legation's note of that date addressed to the Foreign Office, text of which was in conformity with that of the draft note transmitted in despatch No. 161, October 20.	783

AGREEMENTS BETWEEN THE UNITED STATES AND HAITI, SIGNED JULY 19, 1933,
AND OCTOBER 27, 1933, AMENDING THE GARDE AGREEMENT OF AUGUST 24, 1916

1933		
July 19 (97)	<i>From the Chargé in Haiti</i> Agreement, signed July 19 (text printed), amending the Garde Agreement of August 24, 1916, for the abolishment of the grade of aspirant officer and the increase of the number of second lieutenants by 22.	784
Sept. 20 (131)	<i>From the Chargé in Haiti</i> Submission of an amendment to the 1916 Garde Agreement concerning provision for the incorporation of the Military Household of the President of the Republic in the Garde d'Haiti; request for authorization to sign the amendment.	785
Sept. 29 (71)	<i>To the Chargé in Haiti (tel.)</i> Authorization to sign amendment referred to in despatch No. 131, September 20.	785

HAITI

AGREEMENTS BETWEEN THE UNITED STATES AND HAITI, SIGNED JULY 19, 1933,
AND OCTOBER 27, 1933, AMENDING THE GARDE AGREEMENT OF AUGUST 24,
1916—Continued

Date and number	Subject	Page
1933 Oct. 12 (156)	<i>From the Chargé in Haiti</i> Advice concerning Foreign Minister's submission of a counter-proposal modifying the draft amendment authorized in telegram No. 71, September 29, and his suggestion that agreement be amended by an exchange of notes; submission of Legation's draft note, and request for instructions.	786
Oct. 19 (76)	<i>To the Minister in Haiti (tel.)</i> Authorization requested in despatch No. 156, October 12; suggestion of phrase which should be included in text of Haitian note if the same phrase is included in text of Legation's note.	786
Oct. 31 (175)	<i>From the Minister in Haiti</i> Exchange of notes with the Foreign Minister, October 27 (texts printed), providing for an amendment to the Garde Agreement of 1916, for the incorporation of the Military Household of the President in the Garde d'Haiti.	787

WAIVING OF IMMUNITY FOR AMERICAN TREATY OFFICIAL FROM JURISDICTION OF
HAITIAN COURTS IN CASE OF FRAUD IN THE COLLECTION OF CUSTOMS

1933 Apr. 13	<i>Press Release Issued by the Department of State</i> Information that David P. Johnson, American Collector of Customs at Port-au-Prince, has confessed that he has been guilty of defrauding the Haitian customs and accepting bribes from Zrike Brothers, importers and merchants of Port-au-Prince; Department's action taken as a result of Johnson's confession, waiving Johnson's immunity as a treaty official and surrendering him to the jurisdiction of the Haitian courts.	788
Apr. 7 (39)	<i>From the Chargé in Haiti (tel.)</i> Advice concerning a resolution introduced in the Haitian Senate by Senator Hudicourt seizing the occasion of the recent customs frauds to insist upon the return of the administration of Haitian affairs and finances to the Haitian people.	789
Apr. 11 (24)	<i>To the Minister in Haiti (tel.)</i> Instructions to inform Haitian Government that, upon receipt of assurances on certain points enumerated, Department is willing to waive Johnson's immunity as a treaty official and surrender him to the jurisdiction of the Haitian courts.	789
Apr. 12 (44)	<i>From the Minister in Haiti (tel.)</i> Views of the Haitian President and Foreign Minister with regard to the points enumerated in telegram No. 24, April 11; Minister's plan to surrender Johnson to Haitian jurisdiction at once.	790
Apr. 21 (47)	<i>From the Minister in Haiti (tel.)</i> Information that the Hudicourt resolution has been adopted.	791

HAITI

WAIVING OF IMMUNITY FOR AMERICAN TREATY OFFICIAL FROM JURISDICTION OF HAITIAN COURTS IN CASE OF FRAUD IN THE COLLECTION OF CUSTOMS—CON.

Date and number	Subject	Page
1933 Apr. 24 (30)	<i>To the Minister in Haiti (tel.)</i> Request for information with regard to basis of a report that De la Rue, General Receiver of Customs, has given the impression to Zrike Brothers' attorney that he would favor settlement for \$40,000 provided Haitian authorities agreed. Advice that American creditors of Zrike Brothers desire the Department to direct informal representations looking to a compromise settlement.	791
Apr. 25 (49)	<i>From the Minister in Haiti (tel.)</i> De la Rue's denial of having given the impression to Zrike Brothers' attorney that he would participate in any settlement negotiation; his position that it would be most improper for him to play any part in negotiations looking to a compromise settlement.	791
June 26 (87)	<i>From the Minister in Haiti</i> Advice that Zrike Brothers were permitted to leave prison on June 14 with provisional liberty, after having agreed to pay the Haitian Government \$100,000 in settlement of the civil claim.	792
July 25 (51)	<i>To the Minister in Haiti (tel.)</i> Department's receipt from U. S. Senator Walsh of Johnson's complaint that he has been discriminated against in favor of Zrike Brothers; Department's instructions to make representations in the matter with a view to obtaining Johnson's release on bail or with provisional liberty.	794
July 26 (81)	<i>From the Minister in Haiti (tel.)</i> Advice that the Haitian Government has accepted \$10,400 as full restitution by Johnson for bribes received from Zrike Brothers and has released him on his own cognizance.	794
Oct. 30 (172)	<i>From the Minister in Haiti</i> Advice concerning Johnson's departure from Haiti in August, apparently with the tacit approval of the Haitian Government; receipt of Haitian note, dated October 28, implying that the United States is responsible for the departure; draft of a proposed reply to the Haitian note.	794
Nov. 2 (116)	<i>From the Minister in Haiti (tel.)</i> Foreign Minister's advice that Haitian Government desires to withdraw its note of October 28.	796
Nov. 16 (102)	<i>To the Minister in Haiti</i> Observations with respect to Minister's draft reply to the Haitian note of October 28, concerning provisions of U. S.-Haitian extradition treaty of 1904; view that since Haitian Government has withdrawn its note, no U. S. reply is necessary.	796
Undated [Rec'd Dec. 2] (200)	<i>From the Minister in Haiti</i> Concurrence in view that Haitian withdrawal of note of October 28 apparently closes the incident.	797

MEXICO

EFFORTS TO REACH A SETTLEMENT BETWEEN THE UNITED STATES AND MEXICO
REGARDING CLAIMS

Date and number	Subject	Page
1933 Mar. 31 (34)	<i>To the Chargé in Mexico (tel.)</i> Instructions to inform Foreign Minister that the convention for renewal of the General Claims Commission, signed June 18, 1932, may be brought into force at any time by exchange of ratifications between the United States and Mexico, and that the convention for renewal of the Special Claims Commission has been submitted to the U. S. Senate for its advice and consent to ratification.	798
Apr. 7 (65)	<i>From the Chargé in Mexico (tel.)</i> Foreign Minister's advice concerning discussions between González Roa, Mexican Ambassador in Washington, and Josephus Daniels, newly appointed American Ambassador to Mexico, regarding the advisability of initiating discussions on an en bloc settlement of claims.	798
May 1 (85)	<i>From the Ambassador in Mexico (tel.)</i> Report of conversation with Foreign Minister Puig, who promised a memorandum giving his concrete proposals for an en bloc settlement.	799
May 12 (57)	<i>From the Ambassador in Mexico</i> Report concerning the different steps taken up to the present time in connection with an en bloc settlement of claims.	800
Aug. 8 (456)	<i>From the Ambassador in Mexico</i> Advice of Dr. Puig's failure to take up the question of an en bloc settlement with the Ambassador.	802
Oct. 2 (646)	<i>From the Ambassador in Mexico</i> Analysis of points involved in the Foreign Minister's memorandum (received in September) containing Mexican proposals for an en bloc settlement. Report of conference, September 28, between Foreign Office and Embassy officials on questions of percentage recovery and agrarian claims.	802
Nov. 1 (757)	<i>From the Ambassador in Mexico</i> Detailed report of conferences held with González Roa; Roa's presentation of an informal plan as a basis for discussion; his subsequent proposal of a lump sum payment by Mexico of 13½ million dollars.	805
Nov. 17 (220)	<i>From the Ambassador in Mexico (tel.)</i> Further conference with González Roa during which the method for payment of the 13½ million dollar lump sum settlement and the time to be extended for such payment was discussed.	808
Dec. 6 (859)	<i>From the Ambassador in Mexico</i> Interview with Acting Foreign Minister, who was advised that Col. Moreno was then in Washington, discussing the claims situation with legal officials of the State Department; review of correspondence with Senator Key Pittman (Chairman of the U. S. Senate Foreign Relations Committee), on the claims question.	809
Dec. 9 (163)	<i>To the Ambassador in Mexico (tel.)</i> Advice that Department considers González Roa's proposal unacceptable, both as regards amount and terms of payment; instructions to communicate orally to the Foreign Office information concerning terms of a protocol suggested by the Department to be negotiated with the Mexican Government for purposes of an en bloc settlement.	813

MEXICO

EFFORTS TO REACH A SETTLEMENT BETWEEN THE UNITED STATES AND MEXICO
REGARDING CLAIMS—Continued

Date and number	Subject	Page
1933		
Dec. 16 (214)	<i>To the Ambassador in Mexico</i> Transmission of draft protocol (text printed) with regard to the settlement of general claims; detailed reasons for Department's objection to Roa's proposal; instructions to emphasize the specific objectives of the draft protocol when it is presented to the Foreign Office.	814
Dec. 19	<i>Memorandum by the Ambassador in Mexico</i> Report of conversation with the Acting Foreign Minister, with reference to the adjustment of claims between the United States and Mexico.	821
Dec. 21 (227)	<i>From the Ambassador in Mexico (tel.)</i> Request for Department's decision regarding certain recommendations by the Ambassador before discussing with Foreign Office details of protocol and related instructions.	821
Dec. 26 (168)	<i>To the Ambassador in Mexico (tel.)</i> Observations as to practical difficulties involved in Ambassador's recommendations; instructions to endeavor to obtain Mexican acceptance of proposed protocol covering general claims transmitted in instruction No. 214, December 16; request for views concerning a proposal for settlement of special claims.	822

CONVENTION BETWEEN THE UNITED STATES AND MEXICO FOR THE RECTIFICATION
OF THE RIO GRANDE IN THE EL PASO-JUAREZ VALLEY, SIGNED FEBRUARY 1,
1933, AND EXCHANGES OF NOTES

1933	(Editors' Note: Information relative to negotiations and territorial questions involved.)	823
Feb. 1	<i>Convention Between the United States of America and Mexico for the Rectification of the Rio Grande in the El Paso-Juarez Valley</i> Text of convention signed at Mexico City.	824
Feb. 1	<i>From the Mexican Minister for Foreign Affairs to the American Ambassador in Mexico</i> Foreign Minister's understanding with regard to documents attached to the convention of February 1.	828
Feb. 1	<i>From the American Ambassador in Mexico to the Mexican Minister for Foreign Affairs</i> Confirmation of understanding.	829
Sept. 8 (187)	<i>From the American Ambassador in Mexico to the Mexican Minister for Foreign Affairs</i> Declaration that the spirit and terms of the February 1 convention do not alter the provisions of conventions already in force as regards utilization of water from the Rio Grande. (Footnote: Information that a similar note in Spanish text was addressed to the American Ambassador by the Mexican Foreign Minister.)	829

MEXICO

RECOMMENDATION BY THE AMERICAN AMBASSADOR AND MEXICAN MINISTER FOR FOREIGN AFFAIRS THAT A JOINT COMMISSION BE APPOINTED TO STUDY MATTERS OF MUTUAL SELF-DEFENSE

Date and number	Subject	Page
1933 Feb. 7 (2255)	<i>From the Ambassador in Mexico</i> Report of developments leading up to the signature by the Ambassador and the Foreign Minister of a memorandum, dated February 4 (text printed), suggesting that the Governments of Mexico and the United States appoint a Commission to give preliminary consideration to the question of cooperative defensive measures between the two countries in case of war with some third power.	830
Nov. 25	<i>From the Chief of the Division of Far Eastern Affairs to the Chief of the Division of Mexican Affairs</i> Opinion that no steps should be taken in connection with information transmitted by the Ambassador in Mexico in despatch No. 2255, February 7, but that a confidential record of the matter should be kept.	838

EFFORTS TO STOP ILLEGAL ENTRY OF CHINESE NATIONALS FROM MEXICO INTO THE UNITED STATES

1932 Nov. 22 (855)	<i>To the Ambassador in Mexico</i> Advice concerning the problem created by the illicit entry of Chinese into the United States from Mexico; request for Ambassador's views in the matter, together with suggestions as to how the United States may meet the situation without violation of its international obligations to the Mexican Government.	839
1933 Mar. 3 (80)	<i>From the Consul at Mazatlán</i> Information that anti-Chinese campaign in Sinaloa, first begun in August 1931, has been resumed recently in the northern part of the State; account of Chinese being driven out of the State of Sonora.	840
Mar. 30 (2442)	<i>From the Chargé in Mexico</i> Report of representations made to the Foreign Minister with regard to the deportation of Chinese from Mexico to the United States without U. S. consent.	841
May 17	<i>Memorandum by the American Ambassador in Mexico of a Conversation With the Mexican Minister for Foreign Affairs</i> Discussion of methods of controlling the illegal entry of Chinese nationals into the United States from Mexico, and suggestion that Mr. William P. Blocker, American Consul at Ciudad Juárez, be detailed to cooperate with Mexican authorities in the matter.	842
May 22 (109)	<i>From the Ambassador in Mexico</i> Indication from Governor Calles of Sonora that he is prepared to cooperate with the Mexican Federal Government with respect to the Chinese situation.	843

MEXICO

EFFORTS TO STOP ILLEGAL ENTRY OF CHINESE NATIONALS FROM MEXICO INTO
THE UNITED STATES—Continued

Date and number	Subject	Page
1933 May 24 (119)	<i>From the Ambassador in Mexico</i> Receipt of a letter from the Consul at Ciudad Juárez giving the latter's views as to the advisability of his making an inspection trip to the West Coast of Mexico; Ambassador's belief that further investigation in Mexico on the part of U. S. authorities would be inadvisable at present.	844
June 23 (272)	<i>From the Ambassador in Mexico</i> Foreign Minister's assurances regarding adjustment of the Chinese situation.	844
July 1 (311)	<i>From the Ambassador in Mexico</i> Transmittal of Foreign Office note advising that the Ministry of Gobernación has issued definitive instructions to the migration offices on the U. S.-Mexican border to prevent the illegal entry of Chinese nationals into the United States from Mexico.	845
Sept. 1	<i>To the Chinese Charge</i> Reference to receipt of Chinese Government's remittance for the purpose of defraying in part the necessary expenditures in connection with the repatriation of Chinese refugees from Mexico; suggestion that the Chinese Government should assume full responsibility therefor.	845
Nov. 11	<i>Memorandum by the Minister in China of a Conversation With the Chinese Vice Minister for Foreign Affairs</i> Advice to Vice Foreign Minister of the fact that the United States Government had recently expended more than \$500,000 to repatriate Chinese citizens who had been expelled by the Mexican Government.	846
Dec. 13	<i>Memorandum by the Minister in China of a Conversation With the Chinese Vice Minister for Foreign Affairs</i> Expression of U. S. hope that Chinese Government would take over the responsibility of repatriating Chinese nationals leaving Mexico; Vice Foreign Minister's assurances as to Chinese Government's efforts to alleviate the situation.	847

NICARAGUA

DISCLAIMER BY THE DEPARTMENT OF STATE OF FURTHER RESPONSIBILITY REGARDING THE GUARDIA NACIONAL FOLLOWING THE EVACUATION OF NICARAGUA
BY THE UNITED STATES MARINES

1933 Jan. 2	<i>Press Release Issued by the Department of State</i> Statement on the occasion of the departure of U. S. Marines from Nicaragua.	848
Dec. 28 (7)	<i>To the Minister in Nicaragua</i> Attitude that Nicaragua is under no obligation to consult the United States with regard to proposed reorganization of Guardia Nacional; instructions to express this view if an official approach to the subject is made by the Nicaraguan Government.	849

PANAMA

ADOPTION OF REMEDIAL MEASURES FOR THE CANAL ZONE IN CONSULTATION WITH
PRESIDENT ARIAS OF PANAMA DURING HIS VISIT TO THE UNITED STATES

Date and number	Subject	Page
1933 Sept. 21	<p><i>From the Panamanian Legation</i></p> <p>Panamanian President's request for U. S. consideration of questions arising from the relations between the two Governments which were created by the 1903 Treaty; hope to secure an agreement which would include measures of an administrative character with regard to the Panama Canal; submission of proposed general bases to be established for future negotiations.</p>	852
Oct. 10	<p><i>Memorandum by Mr. George R. Merrell, of the Division of Latin American Affairs, of a Conference With President Arias in the Secretary's Office, October 9, 1933</i></p> <p>Conversation between President Arias and officials of State, War, and Navy Departments regarding measures in connection with the administration of the Panama Canal on which Panama desires to reach an agreement with United States.</p>	853
Oct. 13	<p><i>To President Roosevelt</i></p> <p>Memorandum of October 11 (text printed) by President Arias containing his requests for remedial measures of an administrative character; views and recommendations regarding the proposed measures, and opinion with respect to the declarations made by President Arias as to future relations between the two Governments.</p>	856
Oct. 20 (3)	<p><i>To the Minister in Panama</i></p> <p>Two memorandums (texts printed), one itemizing the points agreed to by President Arias and President Roosevelt in their conversations; the other, by Assistant Secretary of State Caffery, October 16, recording two statements of President Roosevelt made in this connection. Information that President Arias advised President Roosevelt that he would consider the question of the creation of a joint board for the control of radio in Panama.</p>	865

BOLIVIA

REPRESENTATIONS REGARDING EXTRAORDINARY WAR TAXES CREATED BY BOLIVIAN LAW OF SEPTEMBER 30, 1932

824.512/47 : Telegram

The Minister in Bolivia (Feely) to the Secretary of State

LA PAZ, September 7, 1932—3 p. m.
[Received 3:19 p. m.]

75. The Chamber of Deputies in secret session yesterday passed, and the Senate will undoubtedly approve, the 1 percent tax on capital, referred to in my telegram 72, September 1, 4 p. m.,¹ the proceeds to be used for the national defense. Such a levy on foreign capital invested in Bolivia would apparently be in violation of existing treaties, and would directly affect Patiño Mines, Grace & Company, Guggenheims, Bolivian International Mining Corporation, and others.

FEELY

824.512/47 : Telegram

The Secretary of State to the Minister in Bolivia (Feely)

WASHINGTON, September 10, 1932—3 p. m.

34. Your 75, September 7, 3 p. m. Please cable further details concerning proposed capital levy. Does it apply to Bolivian as well as foreign capital? Does contemplated method of collection appear to involve article 3 of our treaty with Bolivia² or does your reference to "existing treaties" include treaties between Bolivia and other countries?

STIMSON

824.512/48 : Telegram

The Minister in Bolivia (Feely) to the Secretary of State

LA PAZ, September 12, 1932—10 a. m.
[Received 10:40 a. m.]

78. Department's telegram No. 34, September 10, 3 p. m. The law as reported out of committee provides for "a tax on capital invested in

¹ Not printed.

² Treaty of May 13, 1858, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 7, p. 733.

all of Bolivia, for the national defense, for once only, payable in 2 years" on a sliding scale beginning at $\frac{1}{4}$ of 1 percent on capital of from 50 to 100,000 bolivianos and ending at 11 percent on capital of over 20,000,000 bolivianos. The method of collection will be regulated by subsequent decree, and the levy will apparently involve article 3 of our treaty. I mentioned "existing treaties" because of the possibility of concerted action by all countries affected.

FEELY

824.512/49 : Telegram

The Minister in Bolivia (Feely) to the Secretary of State

LA PAZ, September 19, 1932—2 p. m.

[Received 3 p. m.]

85. Referring to my telegrams Nos. 75, September 7, 3 p. m., and 78, September 12, 10 a. m., the bill as finally passed by the Chamber of Deputies provides for a flat tax of 1 percent on all capital invested in Bolivia as an extraordinary contribution for war purposes. The bill is now being considered by the Senate.

The British Chargé d'Affaires has instructions to bring the matter to the attention of the Bolivian Government when the law is finally promulgated, and other diplomatic representatives have asked their Governments for instructions.

FEELY

824.512/49 : Telegram

The Secretary of State to the Minister in Bolivia (Feely)

WASHINGTON, September 22, 1932—5 p. m.

36. Your 85, September 19, 2 p. m. Judging from information received, Department doubts whether article 3 or any part of our treaty with Bolivia is violated by the proposed bill. If bill becomes law and you are still of the opinion that stipulations of the treaty are involved, please cable further details and your reasons therefor.

STIMSON

824.512/54 : Telegram

The Minister in Bolivia (Feely) to the Secretary of State

LA PAZ, October 5, 1932—noon.

[Received October 5—11:35 a. m.]

93. Department's telegram No. 36, September 22, 5 p. m. The law was promulgated on September 30th substantially as reported in my

despatch 433 of September 14th,³ enclosure number 1, the amount of the tax under sections (e) and (f) of article 1 being definitely fixed at $\frac{1}{5}$ of 1 percent per annum for 5 years.

The British Chargé d'Affaires is today officially informing the Bolivian Government that the British Government presumes British individuals and corporations will be exempt from the provisions of the law under the terms of article 9 of the British-Bolivian treaty.⁴

I am of the opinion that under the principle of equality of treatment, American corporations and individuals should enjoy the same exemptions that may be granted to other nationals.

FEELY

824.512/56 : Telegram

The Minister in Bolivia (Feely) to the Secretary of State

LA PAZ, October 13, 1932—11 a. m.

[Received 12:29 p. m.]

101. Referring to the proposed levy on capital for war purposes, the Minister of Foreign Affairs informed me yesterday that in his opinion foreign individuals and corporations would be exempt under the terms of the treaties.

FEELY

824.512/54 : Telegram

The Secretary of State to the Minister in Bolivia (Feely)

WASHINGTON, October 19, 1932—6 p. m.

43. Your 93, October 5 noon and 101, Oct. 13, 11 a. m. After further consideration, Department feels that you would be justified, if necessary, in calling the attention of the Bolivian Government to the last paragraph of article 3 of the treaty of 1858 and requesting that American citizens in Bolivia be exempted from payment of the war tax.

STIMSON

824.512/66

The Minister in Bolivia (Feely) to the Secretary of State

No. 525

LA PAZ, January 25, 1933.

[Received February 2.]

SIR: I have the honor to refer to the Department's telegram No. 43 of October 19, 6 p. m., in reply to my telegrams 93 of October 5, 12 noon,

³ Not printed.

⁴ Treaty of August 1, 1911, *British and Foreign State Papers*, vol. civ, p. 132.

and 101 of October 13, 11 a. m., all in reference to the extraordinary taxes for military purposes created by Law of September 30, 1932, and their applicability to alien residents of Bolivia in contravention of existing treaties.

The matter has now been brought to my attention by the attorney of the Patiño Mines and Enterprises, Inc., an American corporation with large interests in Bolivia, who inquires whether the United States Government intends to protest against the application of these extraordinary taxes to American corporations doing business in Bolivia. I have informed him that while our treaty with Bolivia is not specific in respect of the incidence of such extraordinary taxation on American firms and individuals domiciled in Bolivia, nor even as to most favored nation treatment, I was hopeful that if other nationals are exempted under their respective treaties, American citizens would also be exempt, and that verbal representations had been made by the Legation to the Bolivian Government along those lines.

The capital investment of this corporation in the mining industry proper is not affected, since the Patiño interests, as a member of the Association of Miners, have already agreed to an extraordinary tax of Bs. 100 per ton of tin exported, which takes the place of the $\frac{1}{3}$ of 1% capital tax provided for by the Law of September 30, to be effective for ten years.

What is affected is the Corporation's investment of approximately Bs. 13,000,000 in the Machacamarca-Uncia Railway, which it owns and operates. The amount of tax involved would be Bs. 260,000, payable at the rate of Bs. 26,000 per annum for ten years.

Up to this time, I have merely expressed to the Bolivian Government verbally my Government's expectation that American corporations and individuals would be exempt under Article 3 of the Treaty of 1858. In view of the concrete case that has now arisen, I would appreciate the Department's instructions as to what representations I may make to the Bolivian Government in the premises.

Although I can find no specific guarantee of most favored nation treatment in respect of taxation in our Treaty, I have been waiting the result of the negotiations that have been undertaken by the British and German Ministers here for the protection of their nationals, and have the honor to transmit herewith a copy of the note addressed to the Foreign Office by the British Minister and the Bolivian Government's reply thereto. Enclosures 1 and 2.⁵ The British Minister has informed his Government of the Bolivian Government's attitude, and has requested further instructions.

⁵ Not printed.

In view of this attitude, I would appreciate knowing whether Bolivian citizens resident in the United States during the Great War were subject to extraordinary taxes for military purposes.

The matter of the Patiño Mines is of some urgency, since a demand has already been made for the tax of $\frac{1}{5}$ of 1% on the capital invested in the Machacamarca-Uncia Railway, but I shall take no action until definite instructions have been received from the Department.

Respectfully yours,

EDWARD F. FEELY

824.512/66 : Telegram

The Secretary of State to the Minister in Bolivia (Feely)

WASHINGTON, February 18, 1933—1 p. m.

4. Your despatch 525, January 25. In behalf of Patiño Mines and Enterprises, Incorporated, and any other American companies or citizens called upon to pay war tax, request exemption under Article 3, Treaty of 1858. Department considers the term "occasional contribution" in the English text as including special war taxes.

With reference to penultimate paragraph of your despatch, Department not informed. However, if Bolivian Government raises this point, ask to be informed of names and addresses of any Bolivian citizens who were called upon to pay war tax in this country, requested exemption under the Treaty, and were denied exemption. If Department informed of any such case, subject will be given further consideration.

STIMSON

824.512/69

The Minister in Bolivia (Feely) to the Secretary of State

No. 570

LA PAZ, March 22, 1933.

[Received March 30.]

SIR: I have the honor to refer to the Department's telegram No. 4 of February 18, 1 p.m., in reply to my despatch No. 525 of January 25, 1933, in reference to the extraordinary taxes for military purposes, created by Law September 30, 1932, and the applicability of these taxes to American citizens and corporations.

As the Bolivian Treaty with Great Britain is the most explicit, I have been following closely the negotiations undertaken by the British Minister to obtain exemption for his nationals, and for this reason decided to await an opportune moment before taking up the matter officially with the Bolivian Foreign Office.

On March 7 I discussed the status of American citizens and corporations in respect to this legislation with the Minister of Foreign Affairs, and found that he, personally, was in favor of the exemption of alien citizens and corporations from that part of the direct taxes which were destined for military purposes, but that his colleague, the Minister of Finance, was insisting upon full payment of all the taxes by foreigners and Bolivian nationals alike. In view of this divergence of opinion, the Minister of Foreign Affairs informed me that he had suggested to the Minister of Finance that a commission or a commissioner be appointed by the Government to discuss the question with the diplomatic representatives of the countries whose nationals are affected, and endeavor to reach an amicable settlement or transaction.

In view of this development, I addressed a note to the Foreign Office on March 9, embodying the Department's instructions as contained in the first paragraph of the telegram above referred to, and, in addition, requesting that the matter of the payment of the extraordinary taxes be held in abeyance while the question of the rights of American citizens and corporations under the Treaty of 1858 was under discussion. Enclosure No. 1.⁶

The Minister of Foreign Affairs has not replied to this note, nor has the Commissioner been appointed. The Department will be informed opportunely of the Bolivian Government's reply.

Respectfully yours,

EDWARD F. FEELY

824.512/71

The Minister in Bolivia (Feely) to the Secretary of State

No. 673

LA PAZ, August 30, 1933.

[Received September 7.]

SIR: I have the honor to refer to my Despatch No. 525 of January 25, 1933, and the Department's reply thereto, telegram No. 4 of February 18, 1 p.m., in reference to the extraordinary war taxes created by the Law of September 30, 1932, and the concrete case of the Patiño Mines and Enterprises, Inc., a Delaware corporation, controlled by Bolivian capital.

When the attorney for this company consulted the Legation in January of this year as to the incidence of these extraordinary taxes on alien citizens and corporations, I suggested that, while there was some question as to the status of American individuals and corporations under our Treaty with Bolivia, the Company should refuse to pay the taxes until a definite decision had been made by the Bolivian Government as the result of the negotiations then being carried on by the Legation.

⁶ Not printed.

The attorney for the Company, Doctor Manuel Carrasco, informed his principals of this conversation, but was subsequently instructed by the President of the Company, Mr. Simón I. Patiño, not to make any attempt to evade the tax, first because the amount was not great, and secondly because he, being a Bolivian, was desirous of assisting the Bolivian Government in the difficult financial situation caused by the conflict with Paraguay.⁷ In accordance with Mr. Patiño's instructions, the local representative of the company, without informing the Legation, paid the extraordinary tax for the current year without question, thereby establishing a precedent which may be prejudicial to the interests of other American companies in the future.

As reported in my Despatch No. 525, the capital investment of the corporation in the mining industry proper was not involved, since the Patiño interests had already agreed, as a member of the Association of Miners, to pay an extraordinary tax of Bs. 100 per ton of tin exported, in lieu of the $\frac{1}{5}$ of 1% capital tax set up by Law of September 30, 1932. What was affected was the company's investment of approximately Bs. 13,000,000 in the Machacamamarca Uncia Railway which it owns and operates. The total amount of the tax payable by the Railway was Bs. 260,000 for the ten years, but the Executive has now submitted to Congress a bill providing for two additional loans totaling Bs. 55,000,000 for the national defense, and extending the extraordinary taxes for a period of five additional years, and it seems likely that the period will be prolonged indefinitely as further loans become necessary.

This is the only concrete case of an American company that has come to the Legation's attention.

In pursuance of the Department's instructions, however, the Legation, by Note No. 164 of March 9 to the Foreign Office, formally requested the exemption of American citizens and companies from the payment of the extraordinary taxes for military purposes, under the terms of the Treaty of 1858, Article 3. In the same note it was requested that the matter of the payment thereof by such persons be held in abeyance while the question of their rights under the 1858 Treaty was under discussion.

The Bolivian Minister of Foreign Affairs acknowledged receipt of this note on March 22, informing the Legation that the question had been referred to the Minister of Finance for attention, but the Legation has never been advised of the Minister's decision. Inasmuch as no case other than that of the Patiño Mines and Enterprises has arisen, the Legation has considered it advisable not to press the issue.

The British and German Legations, however, whose nationals have large capital investments in Bolivia, have continued their negotiations with the Government and on August 1 the Foreign Office addressed a

⁷ See vol. iv, pp. 241 ff.

note to the British Minister in La Paz, transcribing the decision of the Minister of Finance, in the sense that under the British Treaty of June [*August*] 1, 1911, British citizens and subjects were exempt from the obligation of paying the direct taxes, established by the Law of September 30, 1932, but that they must satisfy the indirect taxes thereby created, the incidence of which it would be impossible to define. Enclosure No. 1.¹⁰

This decision seemed to be a reasonable one, but, in its second part, (b), the Minister of Finance held that "legal persons such as corporations, which are not comprised in the British Treaty, must pay all of the taxes (both direct and indirect) because the exemption granted by the Treaty applies exclusively to 'citizens or subjects' and not to entities established in the country, which are considered as national and therefore subject to the sovereignty, the laws, and the authorities of the nation under the terms of Amendment No. 2, Paragraph 2 of the National Referendum of 1931.["]

Inasmuch as the only really important British cases are those of corporations domiciled in Great Britain, the Minister's interpretation of the words "citizens and subjects" under the terms of the National Referendum, makes such "legal persons", as opposed to "natural persons", liable to the direct as well as the indirect taxes. Enclosure No. 1 (b).¹⁰

The pertinent part of the National Referendum on which the Minister of Finance backs his decision, is Constitutional Amendment 2, Paragraph 2, which reads as follows:

"All companies established in the country for purposes of exploitation, elaboration, or business, shall be considered as national, and shall be subject to the sovereignty, the laws and the authorities of the Nation."

The British Legation has merely acknowledged receipt of the Foreign Office note, and it would seem that the next step would be to bring a test case before the Supreme Court in demand of an interpretation of the words "Citizens and Subjects" and the applicability of the Referendum of 1931, as opposed to the language of an international treaty.

In this connection, I have the honor to transmit herewith, Enclosure No. 2,¹⁰ the opinion of Bolivia's most eminent lawyer, Doctor Carlos Calvo, in the sense that legal persons as well as natural persons are exempt under the terms of the Treaty of 1911 with Great Britain, and that the Minister of Finance is in error in attempting to set up a distinction between the two classes of persons.

¹⁰ Not printed.

This is the status of the question at the present time, insofar as the British Government is concerned.

If then, the Bolivian Government holds that American citizens are exempt under our Treaty, individual American citizens will not be obliged to pay the direct taxes. As to American corporations, their status will depend upon the legal interpretation of the word "citizens" and the applicability to them of the terms of the 1931 Referendum.

Respectfully yours,

EDWARD F. FEELY

[No further representations were made by the United States in this matter. On May 12, 1935, the Bolivian Internal Revenue Administration issued a circular in which it was stated that "taxpayers of British, French, German, Italian, Spanish and North American nationality are required to pay the normal tax only, in virtue of existing treaties exempting subjects of those nations from all war contributions". (824.512/81)]

**ARRANGEMENT BETWEEN THE UNITED STATES AND BOLIVIA FOR
EXTENSION TO CONSULAR OFFICERS, ON BASIS OF RECIPROCITY,
OF THE PRIVILEGE OF FREE IMPORTATION OF ARTICLES FOR
PERSONAL USE**

624.11241/7

The Secretary of State to the Minister in Bolivia (Feely)

No. 153

WASHINGTON, November 8, 1932.

SIR: The receipt is acknowledged of your despatch No. 428, September 8, 1932,¹¹ stating that you have been advised informally by the Bolivian Ministry of Foreign Affairs that a consular officer accredited to Bolivia may request the Ministry for liberations covering importations of personal effects but that such a request must be countersigned by the Chief of Mission of the officer's country, such countersignature meaning that Bolivian consular officers enjoy free entry in the country of the signer.

You are informed in reply that the Department has been advised by the Treasury that the Department perceives no objection to according reciprocally to Bolivian consular officers assigned to the United States who are Bolivian nationals and not engaged in any private occupation for gain, and their families, in addition to free entry upon arrival and return to this country after leave of absence spent abroad which they now enjoy, the privilege of importing articles for their personal use free of duty at any time during their official residence in

¹¹ Not printed.

the United States, on the understanding that no article the importation of which is prohibited by the laws of this country shall be imported by them.

You are therefore requested to take the matter up with the Bolivian Ministry of Foreign Affairs, stating that, reciprocally and upon the request of the Bolivian Legation in Washington in each instance, the Department of State will arrange for the free entry of articles imported by Bolivian consular officers in the United States and their families as provided in the foregoing paragraph.

Should your report to the Department be favorable, the Bolivian Legation at Washington and the Treasury Department will be advised that the arrangement may be considered effective immediately.

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

624.11241/8

The Minister in Bolivia (Feely) to the Secretary of State

No. 500

LA PAZ, December 28, 1932.
[Received January 23, 1933.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 153, dated November 8, 1932 (File No. 624.11241/7), wherein it was stated that the Treasury Department has no objection to granting free entry to Bolivian consular officers stationed in the United States and the privilege of importing at any time articles for their personal use free of duty, on the understanding that no article the importation of which is prohibited by the laws of the United States shall be imported by them.

In accordance with the instructions contained in the instruction under acknowledgment, this Legation has taken the matter up with the Bolivian Ministry of Foreign Affairs. A reply, dated December 20, 1932, has now been received from the Bolivian Foreign Office in which the arrangement as suggested in the Department's instruction is accepted without reservation. A copy of this reply in translation and in the original Spanish is enclosed herewith.¹² The Legation today addressed a note to the Ministry of Foreign Affairs stating that a despatch was being addressed to the Department of State regarding Bolivia's acceptance of the suggested arrangement in order that the United States Department of the Treasury may be advised thereof without delay, to the end that from this time on personal effects imported by Bolivian consular officers and their families in the United States may be admitted free of duties. It was also stated in this Lega-

¹² Not printed.

tion's note to the Bolivian Ministry of Foreign Affairs that the Chief of this Mission would henceforth countersign requests for customs liberations addressed to the Ministry by the Consul of the United States in this city, and that such countersignature would have the meaning that Bolivian consular officers in the United States would enjoy reciprocal custom courtesies, within the limitations set forth in the Department's instruction under acknowledgment.

Respectfully yours,

For the Minister:

ROBERT P. JOYCE

Third Secretary of Legation

624.11241/11

The Minister in Bolivia (Feely) to the Secretary of State

No. 501

LA PAZ, January 6, 1933.

[Received January 19.]

SIR: I have the honor to refer to this Legation's despatch No. 500, dated December 28, 1932, File No. 122 [624.11241/8], regarding the steps that had been taken by this office to conclude an arrangement whereby American consular officers stationed in Bolivia may import into this country free of duties personal effects and articles for personal use, reciprocal privileges being enjoyed by Bolivian consular officers in the United States.

The Legation on December 29 received a note from the Ministry of Foreign Affairs regarding this matter. A copy of this note, together with a translation thereof, is enclosed herewith.¹³ It would appear that the Bolivian authorities will consider the matter definitely arranged after an accord has been reached as between the Department and the Bolivian Legation in Washington.

Respectfully yours,

EDWARD F. FEELY

624.11241/8

The Secretary of State to the Bolivian Minister (Finot)

WASHINGTON, January 27, 1933.

SIR: I have the honor to inform you that according to advice received from the American Legation at La Paz, the Bolivian Government is prepared to extend the privilege of importing articles for their personal use free of duty on a basis of reciprocity to American consular officers assigned to Bolivia. The Treasury Department has also con-

¹³ Not printed.

sented to the extension of the privilege on a basis of reciprocity to Bolivian consuls assigned to the United States, and their families.

I have pleasure in advising you, therefore, that in addition to the free entry of baggage and effects upon arrival and return to their posts in this country after visits abroad, which Bolivian consular officers assigned to the United States already enjoy, effective at once, upon the request of the Bolivian Legation in each instance, this Department will arrange for the extension of the free importation privilege to Bolivian consular officers assigned to the United States who are Bolivian nationals and not engaged in any private occupation for gain, and their families, on the understanding that no article the importation of which is prohibited by the laws of the United States shall be imported by them.

Accept [etc.]

For the Secretary of State:
WILBUR J. CARR

624.11241/9

The Bolivian Minister (Finot) to the Secretary of State

WASHINGTON, January 30, 1933.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note dated the 27th of this month, in which you are good enough to inform me that in accordance with the advice received from the American Legation at La Paz, the Government of the United States agrees in extending to the Consular Officials of Bolivia in this country the privilege of the importation free of duty of articles for their personal use on a basis of reciprocity and on the conditions stated in the note of Your Excellency above referred to.

On this subject, I am pleased to inform Your Excellency that I have received instructions from my Government to conclude this accord, conducted by the American Legation at La Paz. In consonance with it the necessary instructions will be issued to apply to the Consular Officials of the United States in Bolivia so that they may enjoy the same privileges accorded by Your Excellency's Government to the Bolivian Consular Officials in the United States.

Accept [etc.]

ENRIQUE FINOT

BRAZIL

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL

611.3231/520 : Telegram

The Acting Secretary of State to the Chargé in Brazil (Thurston)

WASHINGTON, July 12, 1933—6 p. m.

57. I informed the Brazilian Ambassador today that the Department would like to open conversations with him of a purely exploratory character to ascertain whether we could beneficially negotiate a reciprocal trade agreement with his Government; such an agreement would, of course, have to be submitted to the Senate for approval. The Ambassador said that he was ready to explore this subject with us; that he would send a telegram to his Government this afternoon in regard to the matter.

You may bring this informally to the attention of the Minister for Foreign Affairs and report promptly his comments.

PHILLIPS

611.3231/521 : Telegram

The Chargé in Brazil (Thurston) to the Acting Secretary of State

RIO DE JANEIRO, July 15, 1933—10 a. m.

[Received 10:30 a. m.]

65. The Minister for Foreign Affairs informed me last evening that the appropriate departments of the Brazilian Government especially the Minister of Finance have been requested to submit at once to the Minister of Foreign Affairs their views with respect to the negotiation of a reciprocal trade agreement with the United States. Until those departments have expressed themselves no definitive statement on the subject can be made. The Minister for Foreign Affairs requested me to tell you, however, that in principle the Government of Brazil is disposed to enter into such negotiations.

THURSTON

611.3231/523 : Telegram

The Chargé in Brazil (Thurston) to the Acting Secretary of State

RIO DE JANEIRO, July 18, 1933—noon.

[Received July 18—11:45 a. m.]

66. A United Press despatch from Washington published in the Rio de Janeiro newspapers last night and this morning states that

the "Cautious accepting in principle by Brazil" of the proposal to explore the possibilities of a reciprocal agreement with the United States made a deep impression upon diplomatic circles there. The despatch concludes with the statement that one motive which might justify Brazil's attitude is the fact that the Brazilian economic delegation ascertain that the principal weapon of the United States was the possibility that Congress would impose a tax on coffee¹ and that it is believed that such a possibility still constitutes an important factor in the forthcoming negotiations "although hope is entertained that an agreement may be reached on an amicable basis without the United States resorting to such a powerful recourse".

During my interview with the Minister for Foreign Affairs reported in telegram 65, July 15, 10 a. m., I detected not the slightest sign of reluctance or "caution" with respect to this matter.

THURSTON

611.3231/525 : Telegram

The Chargé in Brazil (Thurston) to the Acting Secretary of State

RIO DE JANEIRO, July 22, 1933—11 a. m.

[Received 1:15 p. m.]

67. Embassy's July 18, noon. A Havas despatch from Washington again refers to Brazilian prudence with respect to the reciprocal trade convention and states that Brazil has not yet definitely replied to the American overtures.

I am informed by the Brazilian Undersecretary of State that the Brazilian Ambassador at Washington was instructed 3 days ago to inform the Department that Brazil is definitively prepared to enter into such negotiations and to invite the Department to submit concrete proposals.

THURSTON

611.3231/532

Memorandum by the Acting Secretary of State

[WASHINGTON,] July 27, 1933.

The Brazilian Ambassador called to say that his Government was glad to respond to the suggestion of conversations looking to a possible reciprocal trade agreement between the United States and Brazil; he did not think that his Government would send any experts to Washington for these conversations; he would like, however, to have a

¹ See memorandum of May 20 by Mr. W. R. Manning, of the Division of Latin American Affairs, p. 45.

statement from me, preferably in the form of a personal letter, which could be a basis for these conversations.

I explained again that I could not very well put in writing at the present time any possible exchange of commodities because this was a subject which would naturally come up for discussion; I would, however, be glad to write him a letter to the effect that the conversations were merely exploratory, with a view to ascertaining whether formal negotiations could be wisely undertaken by the two Governments.

WILLIAM PHILLIPS

611.3231/532

*The Acting Secretary of State to the Brazilian Ambassador
(Lima e Silva)*

WASHINGTON, July 28, 1933.

MY DEAR MR. AMBASSADOR: I was pleased to learn from you yesterday that your Government looks with favor on the suggestion of conversations here in Washington looking to a possible reciprocal trade agreement.

As I envisage these conversations, they would be of a purely exploratory character to ascertain whether the two Governments could, with mutual benefit, negotiate a reciprocal trade agreement. In order to reach a decision about this matter, it will probably be necessary to survey broadly the nature of the trade between the two countries, the commodities that enter into this trade, the question of tariffs, et cetera.

The President attaches considerable importance to these discussions and hopes that they may take place in the near future.

Sincerely yours,

WILLIAM PHILLIPS

611.3231/535

*The Brazilian Ambassador (Lima e Silva) to the Acting Secretary of
State*

[Translation]

WASHINGTON, August 1, 1933.

MY DEAR SECRETARY OF STATE: Thank you very much for your letter.

As I have had occasion to say to you, my Government sees no objection whatever to our conversing regarding the possibility of the conclusion of a commercial agreement.

Such conversations, however, would be merely for the purpose of exploring the ground, and would not have the character of a formal negotiation.

It would desire further that the American Government suggest to it the bases on which the said agreement would rest, in order to make a better and more detailed examination of the subject.

I avail myself [etc.]

R. DE LIMA E SILVA

611.3231/552

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] August 11, 1933.

When Mr. Accioly, Counselor of the Brazilian Embassy, came in to talk about Cuba,² I took advantage of his visit to mention the letter of the Brazilian Ambassador addressed to the Secretary on August 1, 1933, regarding the commercial treaty conversations. I said that, with reference to Ambassador Lima's request for information as to our views concerning bases on which a commercial agreement would be drawn up, that the Secretary would write in reply. I said that we felt that the proposed agreement would rest on the following basis: That on one hand Brazil would consider the reductions which she was prepared to give to American products in return for the commitment on the part of the United States that leading Brazilian products would remain on the free list. I said that this seemed a fair way of looking at it, in view of the fact that Brazilian exports to the United States greatly exceeded Brazilian imports from the United States. Mr. Accioly vouchsafed no comment on this.

I also referred to the conversation which the Brazilian Ambassador had with Mr. Phillips on July 27, in which the Ambassador said that he did not think that his Government would send any experts to the United States for these conversations. I said that we were somewhat surprised at hearing this, since we felt that if our conversations were to be at all serious we ought to have properly qualified technical advisers on both sides who could consider definitively the questions which would arise on the basis of the conversations mentioned above. I said that both the Colombians and Argentines were sending experts.³ Mr. Accioly said that he had not heard this before and that if this was the case he believed his Government also would send experts.

I said that we had been making a study of our Brazilian-American trade relations and hoped that Brazil would decide to send experts, and would send them up to Washington at an early date, so that we could open our conversations.

EDWIN C. WILSON

² For correspondence regarding the revolution in Cuba, see pp. 270 ff.

³ For correspondence concerning conversations with Argentina, see vol. iv, pp. 642 ff.; with Colombia, see *post*, pp. 217 ff.

611.3231/535

*The Acting Secretary of State to the Brazilian Ambassador
(Lima e Silva)*

WASHINGTON, August 19, 1933.

MY DEAR MR. AMBASSADOR: I acknowledge with thanks the receipt of your letter of August 1, 1933, regarding the conversations, to which we are looking forward, as to the possibility of concluding a commercial agreement between our two countries.

In reply to your request that I suggest to you the bases on which we feel that such an agreement would rest, I may say that we look at it as follows: Brazil, on the one hand, would consider the reductions which she is prepared to accord to American products in return for the undertaking, on the part of the United States, that leading Brazilian products should remain on the free list. This seems eminently fair in view of the fact that these Brazilian products, which are subject to heavy import duties in most countries, enter the United States freely while American products are subject to heavy duties in Brazil to the detriment of reciprocal trade relations. Furthermore, this appears to be in entire accord with the statement made to the Rio de Janeiro press on April 13 last by the Brazilian Minister of Finance when, in observing that the United States buys half of the coffee Brazil sells but admits it free of all taxes, while European nations tax it heavily, Senhor Aranha added:

"Hence a country that grants us such a treatment is well deserving of everything from us. We must accordingly get closer to that country right along and extend to it every facility in order that its products may enjoy in Brazil certain advantages."

In the conversation which you had with me on July 27, you mentioned that you did not think that your Government would send any experts to Washington for these conversations. I may say in this connection, for your own information, that both the Colombian and Argentine Governments are sending experts to Washington for the conversations which they will hold with us. In view of this, it is thought that possibly your Government also may wish to send technical experts equipped to consider definitively the questions which will arise during our conversations. However, pending a decision by your Government in this matter it would seem desirable to begin the preliminary discussions without delay. I should be very pleased, therefore, if you could find it possible to come to Washington for that purpose at an early date. I may add that this is, in fact, the procedure which is being followed in the case of Colombia. Minister Lozano plans to begin conversations with us early next week prior to the arrival of his experts.

Very sincerely yours,

WILLIAM PHILLIPS

611.3231/540 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, August 19, 1933—2 p. m.

64. The Brazilian Ambassador has mentioned that he did not think his Government would send any experts to Washington for the conversations looking to a commercial agreement. Recently he requested information as to our point of view concerning the bases on which such an agreement would rest. I have today written the Ambassador that we feel the bases would be as follows:

[Here follows substance of the note of August 19 to the Brazilian Ambassador, printed *supra*.]

Please see the Minister for Foreign Affairs, explain the great importance which President Roosevelt attaches to these discussions, and say that your Government hopes that they may begin in the near future.

For your strictly confidential information. We have the impression that the Brazilian Government is holding back in this matter. Discussions with Colombia are on the point of beginning, and it will be decidedly advantageous from our viewpoint to hold discussions with the Colombians and Brazilians practically simultaneously.

PHILLIPS

611.3231/542 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, August 21, 1933—6 p. m.

[Received 7:55 p. m.]

74. I conveyed substance of Department's telegram No. 64, August 19, 2 p. m., to Foreign Minister this afternoon. He said that he would take the matter up with the Minister of Finance this evening and hoped to communicate with me at an early date. In the meantime he asked that I inform the Department that the Brazilian Government was quite as anxious as we to get on with the negotiations along the line of the Department's telegram; that they were prepared to begin preliminary conversations at once and that he felt safe in saying that any necessary experts would be promptly sent to Washington.

I am convinced from the Minister's attitude and other evidence there is no ground for feeling that Brazilian Government is holding back in this matter. I happen to know that at least on two occasions they have telegraphed the Embassy in Washington to endeavor to find out what we want to do and when we would be prepared to begin discussions. It seems clear to me that they had an unpleasant shock a few

months ago when there was talk of an import tax on coffee and that they will not feel entirely easy until the situation is covered by treaty.
GIBSON

611.3231/554

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] August 29, 1933.

FIRST INFORMAL CONVERSATION WITH THE BRAZILIAN AMBASSADOR
LOOKING TO THE POSSIBILITY OF NEGOTIATING A COMMERCIAL
AGREEMENT

The Secretary being delayed in cabinet meeting, Mr. Caffery⁴ received the Ambassador. Mr. Caffery stressed the informal and exploratory nature of these conversations. Mr. Lima said that his Government was sending two experts, the Brazilian Treasury delegate in London, Mr. Flavio Penna, and the Consul General in New York, Sebastião Sampaio. He thought that Mr. Penna would be here about the end of September and the discussions could begin at that time, although he would be prepared to begin earlier if that seemed advisable.

At this point the Secretary came in. The Secretary referred to his experiences in the House and Senate over a period of some twenty years and the recurrent efforts made during these years, particularly when economic conditions in this country were bad, to place a tax on coffee and tea. He said that economists generally recognized that taxes on such commodities as tobacco, wine, coffee, cocoa and tea were sound economically. He spoke of the vast domestic program of this country at the present time to improve conditions, involving the expenditure of some four or five billions of dollars of public money, and the necessity of adequate taxation to meet the cost of this program. He said that for many years other countries, such as the European countries, had taxed coffee but that this Government had consistently made an effort and had succeeded in keeping coffee on the free list. He hoped that the Brazilian officials in considering this whole question of commercial interchange would take this phase of the matter into consideration.

The Ambassador said that Brazil of course had this phase of the matter particularly in mind. The Secretary added that any commercial agreement reached between the two countries should of course be mutually beneficial, and that he would not have proposed the idea

⁴Jefferson Caffery, Assistant Secretary of State.

of these discussions unless he had felt that they could be made of profit to both countries.

The Ambassador then said that he had instructions from his Government to raise another matter. The Brazilian Government would like to obtain a credit from the United States Government of \$50,000,000 to be made available to the Bank of Brazil in equal parts monthly for sixteen months. This credit was desired in order to stabilize the milreis, and the Ambassador stated that it would be used "only for exchange going to America." It was brought out that the situation as regards frozen commercial credits and capital investment interest earned in Brazil owing to American concerns had been cleared up by the recent agreement made between private concerns in this country and the Bank of Brazil.⁵ The Ambassador repeated, however, that his Government felt that this amount was required to stabilize the milreis (presumably in order to do away with exchange control, although the Ambassador did not state this). He did not mention the figure at which it was proposed to stabilize, and he did not know what terms of repayment his Government had in mind. The Ambassador referred to Brazil's bad economic and financial situation owing to the low price of coffee and the large carry over from previous years' crops.

The Secretary said that the R. F. C.⁶ lacked authority to make direct loans. If it was a matter of facilitating access of the Brazilian Government to the market in this country for a loan, he suggested that the Ambassador furnish the Department with a memorandum which we would study and transmit to the Treasury and the Federal Reserve Board for their consideration. The Ambassador said that he would do this.⁷ He asked that this question be treated in confidence.

EDWIN C. WILSON

611.3231/546 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, August 31, 1933—3 p. m.

[Received 6:40 p. m.]

75. It would be helpful if the Department would furnish me some indication as to the course of discussions with the Brazilian Ambassador on the subject of the trade agreement. The subject arises frequently in conversation here and I am handicapped in expressing any views for fear of crossing wires with what is being said in Wash-

⁵ For text of agreement, see p. 57.

⁶ Reconstruction Finance Corporation.

⁷ See note of September 5, from the Brazilian Ambassador, p. 66; also the Department's reply, November 10, p. 72.

ington. For instance, the Minister of Finance told me some days ago that he had recommended that, as regards acting on our suggestion of Brazilian experts being sent to Washington, there should be simultaneous appointment of American experts in Rio "in order to have the benefit of knowledge of Brazilian conditions". I assume that it is the Department's desire to keep the negotiations centralized in Washington and conducted parallel to other similar negotiations, but beyond expressing a doubt as to the feasibility of negotiating on the same subject in two places at once I did not feel warranted in expressing any views in the absence of fuller knowledge of the Department's wishes. In the light of my brief experience here it seems difficult to avoid the conclusion that supplementary and simultaneous negotiation here would only mean confusion and delay. I should appreciate the Department's guidance as to the line to be taken on this subject.⁸

GIBSON

611.3231/550

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] September 1, 1933.

Mr. Accioly, Counselor of the Brazilian Embassy, came in yesterday. He said that in the first informal conversation which the Brazilian Ambassador had with the Secretary on August 29 regarding a commercial agreement, the Ambassador had forgotten to mention an inquiry received from his Government whether this Government would consider it practical to constitute a commission of American experts to discuss the trade treaty in Rio concurrently with the discussions being held here. I said that I thought this would merely make for confusion and loss of time and effort. Mr. Accioly said that he felt the same way, but the Embassy had been instructed to raise the point and the Ambassador, who had gone back to Manchester on August 29, had requested him to take it up. I said I would take it up and advise him of the Department's views.

Mr. Accioly also said the Embassy was instructed to inquire when we felt the Brazilian experts should be available in order that detailed discussions might begin. I said that my impression was that our preparation is at the point where we could take up the detailed discussions about as soon as Mr. Penna, the Brazilian Treasury delegate at London, could get over here. However, I would look into that also and advise him definitely.

⁸ By telegram No. 66, September 2, 1 p. m., the Ambassador was informed of the pertinent points of the conversations recorded in memoranda of August 29 and September 1, by the Chief of the Division of Latin American Affairs.

Mr. Accioly then asked my opinion concerning the possibility of granting the credit of \$50,000,000 which the Brazilian Government sought from this Government. I said I thought this would be rather difficult. This Government had no authority to make direct loans. The R. F. C. could finance the purchase of surplus agricultural commodities, but this was not what Brazil was seeking. The Federal Reserve Banks had in the past participated with Central Banks of other countries in extending credits for stabilization of currencies. I said that just as soon as the Embassy would furnish us the memorandum on the matter which the Ambassador had mentioned, we would pass it on to the Treasury and to the Federal Reserve Board and the question would be given careful consideration.

After speaking with Mr. Caffery and Dr. McClure,⁹ I telephoned Mr. Accioly today to say that this Government felt that it would not be practicable to set up a commission of American experts in Rio to carry on trade discussions at the same time that such discussions were held here; we felt that nothing would be gained by this and that in fact it would probably only result in loss of time and duplication of effort. I also said that we suggested Monday, September 18, as a date for beginning detailed discussions with the experts, although if the Brazilian experts should desire to arrive here a little earlier than that, we could be prepared to talk with them.

EDWIN C. WILSON

611.3231/5663

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] October 12, 1933.

I telephoned the Counselor of the Brazilian Embassy, Mr. Accioly, referred to our conversation yesterday, and said that Mr. Caffery wished to inquire whether, in view of the fact that Mr. Penna would not arrive before the end of the month, it would not be possible for the Ambassador with Mr. Sampaio to begin the detailed treaty discussions now.

After consulting his Ambassador Mr. Accioly telephoned me later to say, no, that the Ambassador felt it necessary to wait until Mr. Penna arrived. I said that we were quite anxious to get on with the discussions and inquired whether in view of our understanding last September that the Brazilian experts would be here about September 18, it might not be possible to expedite Mr. Penna's sailing from

⁹ Wallace McClure, Assistant Chief of the Treaty Division, Department of State.

England. Mr. Accioly said that he understood that Mr. Penna could not arrive in Washington before the end of the month.¹⁰

EDWIN C. WILSON

611.3231/571

Memorandum Handed to the Brazilian Ambassador (Lima e Silva) by the Assistant Secretary of State (Caffery), on October 30, 1933

There is attached hereto a draft of a reciprocal trade agreement between the United States of America and the United States of Brazil, with two appended schedules of products¹¹ including, respectively, those on which reductions in duties are desired by the United States, and those which it is desired shall continue to receive in Brazil treatment as favorable as that now enjoyed. The Government of Brazil will doubtless desire to submit as soon as practicable a list of the Brazilian products with respect to which commitments are desired from the United States.

The Government of the United States reserves, of course, the right to make such changes in the attached draft agreement and appended schedules as may seem appropriate at any time during the discussions.

WASHINGTON, [October 30, 1933.]

[Enclosure]

Draft Reciprocal Trade Agreement

The President of the United States of America and the President of the United States of Brazil, desiring to promote trade between the two countries, have arrived at the following agreement:

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedule 1 annexed hereto and made a part of this agreement, shall, when imported into Brazil, be exempt from customs duties in excess of those set forth in the said schedule.

Articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedule 2 annexed hereto and made a part of this agreement shall, when imported into Brazil, be subject to treatment no less favorable in respect to duties, rebates, sur-

¹⁰ On October 20, Mr. Accioly informed Mr. Wilson that Mr. Penna would be in Washington on the 28th. It was agreed that discussions should begin on Monday, October 30, at 3 p. m. (611.3231/570½)

¹¹ Schedules not printed.

taxes and other charges on imports than that enjoyed on September 1, 1933.

Duties and charges payable on articles enumerated or described in Schedules 1 and 2 shall be computed in accordance with the provisions of Articles IV and V hereof, and shall continue to be subject to the reduction of thirty-five per centum now accorded to most-favored-nations.

ARTICLE II

Articles the growth, produce or manufacture of Brazil, enumerated or described in Schedule 3 annexed hereto¹² and made a part of this agreement, shall, when imported into the United States of America, be exempt from all customs duties and import charges.

The provisions of this article shall not apply to coffee imported into Puerto Rico. They shall not apply to such special duties as are required by law to be assessed on importations which are not properly marked to indicate their origin, or to such special duties as may be required by law to be assessed on articles which have been sold at less than the foreign market value (or, in the absence of such value, than the cost of production).

ARTICLE III

Articles the growth, produce, or manufacture of the territory of either Contracting Party, which are imported into the territory of the other Party, and which are not separately enumerated or described in any paragraph or number of the tariff of the importing country and are not subject under a tariff provision relating to similitude, comingling, et cetera, to a rate or rates prescribed for an enumerated or described article, shall not be dutiable in an amount exceeding twenty per centum of the dutiable value computed as provided in Article IV of this agreement.

ARTICLE IV

In respect to articles the growth, produce, or manufacture of the territory of either Contracting Party imported into the territory of the other Party, and on which the duty or tax imposed by the latter is expressed as a percentage of the value thereof, the method of determining dutiable value shall be as prescribed under presently existing laws and regulations of the importing country; and the ad valorem duties or taxes required to be paid shall not exceed the amount computed at the established rate directly and without increment from the value obtained by converting the value in the currency in which the goods are invoiced into an equivalent value in the currency in which

¹² Schedule 3 is not annexed to file copy.

the duties are to be paid by a single conversion at a rate representing the open market ratio between the values of the two currencies or at a fixed rate not differing by more than five per centum from such open market ratio.

The customs authorities of each Party will give sympathetic consideration to such representations as importers shall make, concerning the dutiable value to be placed upon goods originating in the territory of the other Party.

ARTICLE V

In order that traders may more easily determine the charges to which imported goods are subject, any surtaxes or fees which are now or may hereafter be imposed on any article in either country in addition to the rate of duty established by this agreement or under its customs tariff, shall be consolidated into a single surtax, which shall not exceed ten per centum of the amount of duty payable after any deductions, such as the thirty-five per centum reduction now accorded by Brazil to most-favored-nations, have been made.

ARTICLE VI

All articles, the growth, produce or manufacture of either Contracting Party, after importation into the territory of the other Party, shall be exempt from any internal taxes or governmental charges other or higher than those payable on like articles of national origin.

Those articles the growth, produce or manufacture of the United States of America, described in Schedules 1 and 2 annexed hereto which are not produced in substantial quantities within Brazil, shall, after importation into the territory of Brazil, be exempt from any internal taxes or governmental charges other or higher than those in force on the date of signature of this agreement. Likewise, those articles the growth, produce or manufacture of Brazil described in Schedule 3 annexed hereto, which are not produced in substantial quantities in the United States of America, shall, after importation into the United States of America, be exempt from any internal taxes or governmental charges other or higher than those in force on the date of signature of this agreement.

ARTICLE VII

Laws and regulations and decisions of administrative and judicial authorities pertaining to the classification of articles for customs purposes and to rates of duty shall be published in such a manner as to enable traders to become acquainted with them in advance of importation, and shall apply uniformly at all ports of entry.

No administrative ruling by either Contracting Party effecting advances in duties or charges on importations from the territory of the other Party, or imposing any new requirement with respect to such importations, shall become operative until at least thirty days after public notice thereof in the usual official manner. The provisions of this paragraph do not apply to administrative orders imposing anti-dumping duties, relating to sanitation or public safety, or giving effect to judicial decisions.

ARTICLE VIII

In cases in which either Party shall impose any penalty in respect to customs regulations or formalities on merchandise arriving from the territory of the other, a period of at least sixty days will be granted the buyer or other Party in interest, or the agent of either of them, in which an appeal may be taken to an appropriate authority competent to review the matter: *Provided, That* in the case of merchandise liable to perish or to waste or to become greatly reduced in value by keeping, or when the expense of preserving the merchandise is out of proportion to the value thereof, such merchandise may be sold, and the net proceeds obtained from such sale shall be considered merchandise within the meaning of this paragraph and shall be accorded all the privileges of appeal as provided herein.

Neither Party shall impose greater than nominal penalties upon importations of products or manufactures of the territory of the other Party because of errors in documentation obviously clerical in origin or where good faith can be established.

Each Party shall accord sympathetic consideration to such reasonable representations as the other shall make regarding the operation of customs regulations, the observance of customs formalities, and the application of sanitary laws and regulations for the protection of human, animal or plant life.

ARTICLE IX

It is agreed that the United States of America and the United States of Brazil will grant each other unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and subsidiary charges of every kind and in the method of levying duties, and, further, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the customs.

Accordingly, natural or manufactured products having their origin in either of the countries shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules and formalities other or more burdensome,

than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territory of either Party and consigned to the territory of the other shall in no case be subject, in regard to the above-mentioned matters, to any duties, taxes, or charges other or higher, or to any rules and formalities other or more burdensome, than those to which the like products when consigned to the territory of any other country are or may hereafter be subject.

Any advantage, favor, privilege or immunity which has been or may hereafter be granted by either country in regard to the above-mentioned matters, to a natural or manufactured product originating in any other country or consigned to the territory of any other country shall be accorded immediately and without compensation to the like product originating in or consigned to the territory of the other Party.

Neither Party shall establish any prohibition or maintain any restriction on imports from the territory of the other which is not applied to the importation of any like article originating in any other country. Any abolition of an import prohibition or restriction which may be granted even temporarily by either of the Parties in favor of an article of a third country shall be applied immediately and unconditionally to the like article originating in the territory of the other Party.

In the event of rations or quotas being established by either Party for the importation of any article otherwise restricted or prohibited, it is agreed that in the allocation of the quantity of restricted goods which may be authorized for importation, the other Party will be granted an equitable share, corresponding to the proportion of the trade which it would normally enjoy.

Foreign exchange transactions shall not be regulated or controlled in either country in such a way as to discriminate against the nationals or commerce of the other as compared with the nationals or commerce of any third country.

Nevertheless, the advantages now accorded or which may hereafter be accorded to other adjacent countries in order to facilitate frontier traffic, and advantages resulting from a customs union already concluded or hereafter to be concluded by either country shall be excepted from the operation of this article; and this article shall not apply to police or sanitary regulations or to the commerce of the United States of America with the Republic of Cuba, or to commerce between the United States of America and the Panama Canal Zone, the Philippine Islands, or any territory or possession of the United States of America, or to the commerce of the territories and possessions of the United States of America with one another.

Subject to the reservations set forth in the preceding paragraph the provisions of this article shall apply to articles the growth, produce or manufacture of any area under the sovereignty or authority of either Party imported from or exported to any area under the sovereignty or authority of the other Party. It is understood, however, that the provisions of this paragraph do not apply to the Panama Canal Zone.

ARTICLE X

Except as otherwise provided in this agreement the provisions thereof shall apply to the customs territories of the two countries.

ARTICLE XI

The present agreement shall, from the date on which it comes into force, supplant the agreement by exchange of notes signed by the United States of America and the United States of Brazil on October 18, 1923,¹³ and shall supersede any other subsisting provisions which may be in conflict herewith.

ARTICLE XII

(Provisions for the coming into force of the agreement, its duration, and its termination, to be agreed upon after agreement on the other provisions has been reached.)

611.3231/572 : Telegram

The Secretary of State to the Acting Secretary of State^{13a}

S. S. "AMERICAN LEGION," November 14, 1933—4 p. m.
[Received 4:30 p. m.]

2. In order that I may be intelligently informed in case matter comes up in conversations please radio any expansion of trade agreement plans with regard to Brazilian and Argentine negotiations.

HULL

611.3231/572 : Telegram

The Acting Secretary of State to the Secretary of State

WASHINGTON, November 15, 1933—7 p. m.

5. Your No. 2, November 14. As you will recall, a proposed draft of trade agreement was handed to the Brazilian Ambassador on

¹³ *Foreign Relations*, 1923, vol. I, pp. 461-463.

^{13a} The Secretary of State was en route to the Seventh International Conference of American States, held at Montevideo, December 3-26, 1933; for correspondence concerning the Conference, see vol. IV, pp. 1 ff.

October 30. The Brazilian experts are now engaged in studying this draft in consultation with Rio de Janeiro.

The inter-departmental sub-committee is actively studying possible concessions on Argentine agricultural commodities as requested in the Argentine Ambassador's memorandum of October 7 [5] ¹⁴ These studies should be completed within a few days.

The Colombian negotiations have made rapid progress and in the absence of unforeseen difficulties should result in the signing of a trade agreement within a few days.¹⁵

We will telegraph further developments.

PHILLIPS

611.3231/573: Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, December 6, 1933—noon.

103. We had a meeting with the Brazilian Ambassador and his experts yesterday in order to explain our urgent desire to push the Brazilian treaty. We explained that it is our hope to lay before Congress when it convenes next month a sheaf of bilateral commercial treaties. The Colombian treaty is practically ready for signature, but Congress would obviously be reluctant to ratify that treaty (because of most-favored-nation treatment now extended to Brazil) unless a Brazilian treaty were laid before them at the same time.

The Ambassador explained that our draft of a proposed treaty, which we had handed him on October 30, was now under consideration in Rio de Janeiro. He said that he had cabled recently regarding our desire to make progress in this matter, and that he would cable again.

We also explained to the Brazilian Ambassador that in order to expedite action the Brazilian officials dealing with the proposed treaty might consult with you and the Commercial Attaché if they desired information or explanation of any details. The actual negotiations and any question of policy would, of course, be handled here. The Ambassador said he would cable this as well.

We would greatly appreciate anything you can do to expedite action by the Brazilian Government. We gather that since transmitting our proposal of October 30 the Ambassador and his experts have heard little if anything from their Government in the matter.

PHILLIPS

¹⁴ Vol. IV, p. 661.

¹⁵ Signed December 15, 1933; see pp. 217 ff.

611.3231/574 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 8, 1933—5 p. m.

[Received December 8—4:24 p. m.]

I have conveyed the purport to the Department's telegram No. 103, December 6, noon, to the chief of the commercial section of the Foreign Office. He stated that the list of tariff reductions which we are asking are very long and that consultations with other Government departments are necessary, but promised to expedite a reply to our proposal.

GIBSON

**EFFORTS OF THE DEPARTMENT OF STATE AND PRIVATE FIRMS TO
SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH
RESPECT TO BRAZILIAN EXCHANGE RESTRICTIONS**

832.5151/114 : Telegram

The Secretary of State to the Ambassador in Brazil (Morgan)

WASHINGTON, January 21, 1933—noon.

15. Complaints reaching the Department directly, as well as through the Consul General at Rio de Janeiro especially in his 230 of December 29, 1932¹⁷ and its enclosures, indicate that there is reason to believe that equitable portions of the exchange cover available in Brazil have not been allocated to nationals of this country to make payments due on capital investments, meet current commercial requirements, and transfer to this country accumulated milreis credits.

Please comment by cable on the foregoing and submit by air mail a report containing all available pertinent information, adding a careful expression of your opinion regarding the procedure that should be followed. Include all available information regarding (a) the special exchange deals with certain countries referred to in Enclosures 4 and 5 of the Consul General's report cited, especially that with Czechoslovakia and the others said to be in negotiation; (b) the amount, purpose, amortization provisions and present status of the so-called Rothschild Credit.

The procedure suggested in the Consul General's telegram of January 9¹⁷ is considered undesirable.

STIMSON

¹⁷ Not printed.

832.5151/122

The Ambassador in Brazil (Morgan) to the Secretary of State

No. 4028

RIO DE JANEIRO, February 2, 1933.

[Received February 11.]

SIR: I have the honor to refer to the Department's telegraphic instruction number 15, dated January 21, 12 noon, and in compliance therewith to submit the following preliminary report concerning the complaints with respect to Brazilian exchange restrictions and other policies that have been brought to the Department's attention:

COMPLAINTS

Such complaints may be enumerated as follows:

a) "That exchange restrictions have caused huge deposits of milreis to be accumulated." (Consulate General Despatch 236, January 12, 1933,¹⁸ page 2);

b) "That American interests have not received equitable treatment in the allocation of exchange". (Same reference);

c) "That through its exchange monopoly the Brazilian Government improved foreign exchange; concomitantly it improved coffee quotations so that coffee prices in the United States would not benefit by improvement in exchange. The improved exchange permitted the Brazilian Government to pay less for its foreign exchange cover for service on British loans, and since coffee prices in the United States were not permitted to take advantage of the forced improvement in exchange, the American coffee buyer bears the brunt of the difference in exchange and thus contributes to the payment of a portion of Brazil's indebtedness to Great Britain." (Consulate General Despatch 230, December 29, 1932,¹⁸ page 6, numbered paragraph 4);

d) "That the foreign loans being serviced by the Brazilian Government were all obtained from Great Britain, including a coffee loan, the proceeds of which were used to force higher prices upon the American public which consumes more than half of Brazil's coffee. Furthermore that the United States obtains no favorable treatment from Brazil, and that it can only obtain favorable treatment by placing a duty on coffee. Also that with the proceeds of coffee taxations, which in reality come from the pockets of the American public, Brazil is attempting to raise the price of coffee and is paying the British while American loans languish." (Same reference, numbered paragraph 5);

¹⁸ Not printed.

e) "That Brazilian taxation amounts to about 85% of the total charges f. o. b. steamer Brazilian ports on coffee now exported from Brazil, and that a large part of this tax collected has been used to purchase surplus stocks for destruction, and for the service of British loans, some of them made to finance artificial control of coffee prices, which further enhances the cost to the foreign consumer. Meanwhile service on American loans to Brazil languishes. This despite the fact that during 1931 the United States purchased from Brazil \$104,277,843, of which \$90,000,790 was coffee, and that during the same year the United States sold Brazil goods to the total of \$33,113,899, thus leaving a balance in Brazil's favor of \$71,163,944." (Same reference, page 6a, numbered paragraph 8) ;

f) That the Federal Government is servicing the "Schroeder Coffee Loan to São Paulo of 1930" at the rate of over £5,000,000 per annum, whereas it is obligated to service it at the rate of only slightly over £2,000,000, thus reducing the available exchange supply. (Same reference, Enclosure 4, page 4, first and second paragraphs) ;

g) That the "special exchange deals" believed to have been entered into by Brazil with certain nations deprive United States nationals of exchange cover. (Same reference, page six, first paragraph) ;

h) That although the United States provides 43% of the available exchange coverage, and requires only 14%, it does not receive this share. (Same reference, page 6, penultimate paragraph and table at bottom of page) ;

i) That Brazil has resumed payments upon certain French loans—an act which may under present circumstances "be interpreted as indirect discrimination against the holders of the remaining Brazilian bonded foreign obligations, all of which, with the exception of the two English funding loans, have had amortization stopped and interest paid in scrip". (Letter dated November 3, 1932,²⁰ from the President of the American Chamber of Commerce for Brazil to the Embassy) ; and

j) That the Brazilian Government was "drawing up programs calling for the purchase of a large amount of armament and munition, totalling over 1,000,000 Contos—and in accordance with the general foreign policy advocated by the United States Government that armament purchases by countries in arrears on their debts are to be discouraged—and the payments for it under existing conditions would cause further difficulties in the exchange market as at present controlled". (Same reference.)

COMMENT

a) It is true that American enterprises operating in Brazil have been unable to obtain full exchange cover, and that in consequence

²⁰ Not found in Department files.

they have accumulated great sums of milreis awaiting such cover. This situation, however, is not peculiar to American enterprises, but applies in even greater degree to British and Canadian interests, as well as to others, and it results from the inescapable fact of the inadequacy of available exchange cover to meet both the needs of Government and of commerce. Under the circumstances, exchange control became inevitable as the Government obviously would arrange to protect its own interests;

b) If by this statement it is sought to imply that in the allocation of such portion of the available exchange supply as is distributed to local commercial applicants there is discrimination against American interests, it is believed that the charge could not be supported by evidence. (See Embassy's despatch No. 3998, December 14, 1932.)²¹

If it is meant that American interests are deprived of exchange, to which they feel entitled by virtue of the fact that the greater portion of such exchange is provided by the United States, as a consequence of "exchange deals" and "loan service" arrangements between Brazil and other countries, there would appear to be some justification for the assertion, as will be indicated in following comment.

c) It is difficult to estimate the ultimate balance of such factors as are mentioned in this item. The general advantages of the lowered cost of dollar exchange might well be set against the margin on coffee prices withheld from the American consumer. However, the complaint really concerns the intricate procedures that for many years have characterized the coffee policy of Brazil. As the greatest, but not sole, consumer of Brazilian coffee, the United States inevitably has contributed most heavily to such profits as Brazil has derived from those procedures.

The reference in this item to "Brazil's indebtedness to Great Britain" is discussed in the paragraph next below;

d) When endeavoring to estimate the significance of references to "British loans" being serviced by Brazil, consideration should be given to historical factors. Brazil's bankers have been British for well over a hundred years, whereas American bankers only recently entered Brazil. A result of this situation is that the Funding Loans of 1898 and 1914 are Sterling Loans, and as they were effected with the object of extricating Brazil from grave financial difficulties, their service is regarded as a prior obligation of the Federal Treasury.

To state that Brazil is "paying the British while American loans languish" might lead to the assumption that all British loans are being serviced, while American loans are not. In this connection, the Department is referred to Appendix I of the Report submitted to the Brazilian Government by Sir Otto Niemeyer, July 4, 1931.

²¹ Not printed.

Of the fifteen Sterling loans shown in that Appendix as outstanding January 1, 1931 with a nominal aggregate value of over £100,500,000, only two, the 1898 and 1914 funding loans with an aggregate value of slightly over £21,000,000, are being serviced in cash. The remaining British loans were included in the 1931 funding arrangement, being with two exceptions included in the second, 40-year, series of scrip. The four Federal Dollar loans, having an aggregate value January 1, 1931 of over \$143,000,000 also included in the 1931 funding agreement, are embraced in the presumably more favorable first series, 20-year scrip, provision. Certain French loans likewise, with exceptions to be discussed later, are embraced in the 1931 funding arrangement.

In addition the Federal Government is responsible for and is servicing the 1930 Schroeder loan to São Paulo mentioned in item "f", over one-third of which, however, was originally placed in the American market.

Virtually all Brazilian State and Municipal loans are in default, the Sterling, Dollar, and Franc bonds being, of course, on an equal footing. Contrary to a widely entertained opinion, the United States does not hold a preponderant share of such loans, as is shown by the table printed on Page 245, of the Report of the Secretary of the Commission for Financial and Economic Studies of the States and Municipalities of Brazil transmitted with the Embassy's despatch No. 3949 of September 15, 1932.²²

The "Rothschild Credit"

While no published information concerning the so-called Rothschild Credit is available, the following description of the transaction has been orally supplied to the Embassy by Sir Henry Lynch, the resident representative of Rothschilds:

Sir Henry Lynch pointed out that for one hundred and twenty years Brazil has looked to England for its financial and banking advice and support; that Rothschilds for the past thirty or forty years especially have handled the major part of Brazilian finances and are in fact its fiscal agents; that during the recent years of prosperity, when American bankers entered this field, Brazil was relieved to some extent from the tutelage of the British bankers, and turned to New York—whose bankers were proffering abundant loans and credits. (The Brazilian Traction Light and Power Company, Ltd. at about this time induced their New York bankers, Dillon, Read & Company, to enter this field and take up some of the Brazilian financing.)

When the period of prosperity began to decline, the New York banks (Sir Henry Lynch named only the Guaranty Trust Company and the Chase bank, but referred indirectly to others) became alarmed

²² Not printed.

at the status of their Brazilian accounts—which he said showed overdrafts in the cases of the two Banks last named of over ten million dollars each—and began quietly but hastily closing them out.

The result was that Brazil was suddenly called upon to pay up its New York accounts, and in doing so depleted the Treasury. In the emergency, Brazil appealed of course to Rothschilds who, with their associates (some of whom I inferred also held Brazilian overdrafts) made an agreement whereunder Brazil was given the assistance so urgently required.

Rothschilds required that a definite Schedule of Amortization of the Credit then established be agreed to by Brazil, whereby payment of service was to begin in February, 1931, and to be completed in January, 1932. However, a period of grace was allowed, and payments only began in February, 1932. In July, 1932, the São Paulo insurrection occurred,²³ in view of which the schedule was again modified, payment of one-half and of three-fourths of the monthly quotas being accepted. It is understood that approximately £4,105,000 of the credit has been liquidated, and that the entire credit will be disposed of within the next five months, that is to say, by May or June, 1933. Although exact figures showing the modified payments are not available, it is probable that the transaction has followed approximately this course:

Amount of credit.....	£6, 510, 000	
Payments Feb.–June, 1932, inclusive, at rate of $\frac{1}{12}$ monthly.....	£2, 712, 500	
Payments July–Aug., 1932 at $\frac{1}{2}$ normal monthly rate.....	542, 500	
Subsequent payments at undetermined rates.....	850, 000	4, 105, 000
Outstanding as of Jan. 31, 1933.....	£2, 405, 000	

If payments henceforth are made at the rate of $\frac{1}{12}$ monthly the credit can be disposed of May or June, as stated.

While the statements made by Sir Henry Lynch no doubt emphasize the British and Brazilian viewpoints, and convey the implication that the Rothschild Credit really resulted from and probably even facilitated the honoring of dangerous overdrafts being carried by American bankers, I am confident that they set forth the situation very accurately.

e) The reference in this item to Brazil's coffee policy and to service on British loans while American loans languish has been answered by the comment in section "d".

²³ See *Foreign Relations*, 1932, vol. v, pp. 390 ff.

It is agreed that the position of the United States as the principal source of exchange cover entitles its commerce with Brazil to greater participation in the available cover.

f) The Department's files, notably Despatch No. 3337, April 29, 1930,²⁵ contain material relating to the so-called Schroeder Loan of 1930 to São Paulo. In connection with the present situation, it should be pointed out that over one-third of that loan was originally allocated to the United States.

It apparently is true that this loan received service last year to the extent of about £5,000,000, and that if the amount still outstanding (about £17,000,000) should be serviced at the rate called for under the terms of the loan agreement, about £3,190,000 (not £5,000,000) would be devoted to its service in 1933. Unconfirmed and semi-confidential information indicates, however, that plans may be under study whereby this heavy service rate—which not only lessens the exchange supply but is otherwise onerous to Brazil itself—will be modified.

g) It has been virtually impossible to obtain authoritative information concerning the "special exchange deals" that are quite generally believed to have been entered into by Brazil with numerous countries. In this connection the Department's attention is respectfully invited to the Embassy's despatch No. 3849 of May 13, 1932,²⁵ and subsequent correspondence relating to the reciprocal acquisition of coal and coffee by Brazil and Germany.

There are enclosed herewith a copy of a communication from the Commercial Attaché dated January 31, 1933, and a copy of an item²⁶ appearing in the Monthly Bulletin of the British Chamber of Commerce of Brazil, dated October, 1932, both of which discuss the subject.

It must be borne in mind that the European and other countries with whom such arrangements apparently have been made, themselves have put into force exchange restrictions and that they are equipped with banking machinery through which those restrictions can easily be applied. Some of them, furthermore, have established import quotas. In order, therefore, to assure a market for its coffee, which is a vital matter to Brazil, the Brazilian Government has of necessity, if not willingly, entered into arrangements which would assure to the nationals of the countries concerned the coverage for their exports derived from purchases of coffee.

These special arrangements place American commerce at a disadvantage, both as to trade itself and with respect to the exchange supply.

It is understood that . . . it is the intention of Brazil to undertake to cancel all such arrangements as are at present in existence.

h) This was dealt with by the comment on item "e";

²⁵ Not printed.

²⁶ Neither printed.

i) As the Department will recall (Embassy's despatch 3809, March 10, 1932,²⁷ and enclosures) certain special arrangements were made with France at the time the 1931 Funding Agreement was made, looking in part to the fulfillment by Brazil of an award of the Permanent Court of International Justice at The Hague. While the arrangements unquestionably withdraw from the market certain much needed exchange cover, it is not apparent that objection properly can be made.

j) It is obvious that no objection can properly be raised to the action of the Government—which only a few months ago engaged in a three months' struggle for its very existence—in equipping itself with armament, even though in doing so it further drains the inadequate supply of exchange cover. As a compensating factor in this instance much of the money employed (the total involved does not, of course, approach the sum of 1,000,000 Contos mentioned) in the purchase of armament was expended in the United States.

RECOMMENDATIONS

The essential factor in the situation to which the foregoing complaints and comment relate is simply the insufficiency of the available exchange cover fully to meet the requirements of Government and of business. The Government has met the situation by the curtailment of service on the major portion of its foreign obligations, continuing to service in cash only those which it apparently properly regards as obligations of honor; and business is being compelled to meet it, through restrictions imposed by the Government, by receiving less than its requirements for exchange transfers.

I do not believe that any useful purpose would be served by formal representations to this Government with respect to the manner in which it is utilizing the exchange cover it appropriates. It is probable that excessive amortization of the Schroeder Loan is taking place, and that there may be question as to the propriety of the resumption under present circumstances of cash service on the French loans herein mentioned. There is no doubt, of course, as to the unfairness of the arrangements apparently entered into through the Brazilian Coffee Council with several foreign nations. This last condition, however, as indicated elsewhere in this report, may be removed by action voluntarily taken by the Brazilian Government, and the former promises to become less serious as the service requirements diminish or end—as they promise to do in the cases of the Rothschild and Schroeder obligations.

The gravest problem, in my opinion, is that which is created by the enormous volume of impounded milreis. It is physically impossible

²⁷ Not printed.

at present to transfer them abroad. They constitute accordingly not only a dead weight in themselves, but a serious risk to their owners in view of the ever present possibility of further political disturbances in Brazil which might conceivably result in the depreciation of the milreis to the point where such accumulations would become of little or no value. A further danger to which the holders of these accumulations are exposed is the possibility of drastic action in the nature of a governmental blockade. That is to say, the Government desiring, as is well known, to hold exchange at its present level, if not still further to improve it, and viewing the accumulation of milreis as a constant threat to the exchange rate, might determine to decree an absolute prohibition for a period of years against the exchange transfer of the deposits of milreis belonging to the major foreign interests involved—whose identity and holdings are, of course, known to it.

In compliance with the Department's instruction that I express my opinion as to the procedure that should be followed, I have the honor to suggest that I be authorized to discuss the situation informally and orally with the appropriate Brazilian authorities. It would be my purpose in such conversations to bring to their attention the sentiment very generally entertained by our nationals engaged in business in Brazil that American interests are not receiving the equitable treatment in matters of exchange to which they are entitled in view of the preponderant position of the United States as a customer and source of exchange, and to endeavor to impress upon them the desirability of undertaking, in conjunction with the interested parties, some plan designed to meet the situation created by the ever increasing accumulation of impounded milreis. In this latter connection, it is probable that the efforts of the American Chamber of Commerce for Brazil (see enclosed Memorandum on Exchange Transactions in Brazil), seconded by the United States Chamber of Commerce and the other American organizations whom it has consulted, will soon result in the preparation of a formula which, upon presentation to the Brazilian Government by the American Chamber of Commerce for Brazil, and under instructions from the Department, I could appropriately support.

Yours respectfully,

For the Ambassador:
WALTER C. THURSTON
Counselor of Embassy

[Enclosure]

*Memorandum of the American Chamber of Commerce for Brazil on
Exchange Transactions in Brazil*

The foreign exchange restrictions which Brazil has imposed, have had such disastrous effect upon American export business that the American Chamber of Commerce for Brazil, after spending several

months studying the problem of exchange restrictions as at present constituted in the country, has come to the conclusion that the time is proper for further modifications to be considered by the Brazilian Government in its present exchange control measures. Among the suggestions offered for immediate action, are the following:—

1.—The Chamber feels that it is important that the government thru the Banco do Brasil, continue for the present its control of foreign exchange buying and selling rates, but to prepare the way for a gradual relinquishment of that control. Before this be considered, however, it is of prime importance that the problem of accumulated milreis awaiting conversion into foreign currencies, be satisfactorily solved. These accumulations as at September 1932, amounted to approximately one million contos, based upon data carefully compiled by this Chamber. This burden hanging over the exchange market has a distressing effect on all international commercial transactions into which Brazil enters and should be removed, as soon as possible, in order to start the milreis on the road to a healthy basis of freedom from control measures. At the present time there is no foreign credit available to liquidate these accumulated balances and only future exports can be counted on to furnish, gradually, the required exchange cover, unless, of course, world conditions should improve rapidly, thereby making credit available to Brazil in New York, London and Paris.

2.—Owing to the fact that it seems to be impossible for the Bank of Brazil to estimate with fair certainty what the current requirements are to be for importations and remittances of interest and service on invested foreign capital, and as this Chamber of Commerce is opposed to any regulatory measures that would affect imports from the United States into Brazil, and further, as the Brazilian Government, thru the National Coffee Council and Bank of Brazil, has executed several agreements of a barter or compensating nature with various countries, and has others ready for execution and still others under study, this Chamber feels that the interests of United States Commerce with Brazil can only be safeguarded by a similar compensating agreement being immediately executed between the proper entities in Brazil and the United States. This Chamber, after giving due consideration to the matter, also recommends that it be suggested to the Brazilian Government that such agreements be standardized as to type and privileges and further suggests that those countries purchasing exports from Brazil be given the opportunity of having the exchange cover produced by such exports allocated to nationals of the importing country under the terms of such suggested standardized agreements of a barter or compensating type. Furthermore, inasmuch as the United States sells a predominant share of the imports into Brazil and buys a still greater predominant share of their exports, and recognizing that there exists certain indispensable requirements for exchange cover to the Brazilian Government, such as for diplomatic representation abroad, as well as for the further reason given below, this Chamber also recommends that less than the entire amount of exchange produced by the exports to the United States be allocated to that country. This amount, however, shall not be less than 75% of the value of such exports from Brazil to the United States.

The bills, drafts or other form of credit arising out of the exports are to be handled by the proper banking entities in Brazil, in so far as milreís are concerned, and in the United States as regards the dollar transactions, the balances in New York are to be duly allocated to the commerce of the United States in accordance with the distribution to be indicated by a mutually appointed Committee in New York City, on which will be represented the major United States exporters to and major importers from Brazil.

3.—A desirable object in not requiring that the entire amount of exchange produced by exports to any one country be allocated to that country, is to permit Brazil to accept and put into execution a further suggestion from this Chamber. There seems to be no doubt but that Brazilian Foreign Trade is in need of further and more varied exports, as, at the present time, 73% is provided by a single item and 92½% is represented by ten exported products; that stimulation to the remaining hundreds of exportable products could be effected by placing them upon a free list insofar as any restrictions as to the sale of the export bills or credit instruments derived from them, is concerned. Such a measure would not only be of great assistance to commerce in general, but would provide the entering wedge for the lifting of all restrictions on exports, in that other items could be added to the free list, as the general conditions of the exchange situation warranted. Thus a gradual and logical approach to a return of unrestricted healthy commerce is provided. This suggestion embodies the placing on such a free list, at the present time, all but the following products:

- | | |
|-----------------------------|------------------------|
| 1. Frozen and chilled meats | 6. Coffee |
| 2. Hides | 7. Fruit and nuts |
| 3. Skins | 8. Oil producing seeds |
| 4. Rice | 9. Tobacco |
| 5. Cocoa | 10. Maté |

The Chamber of Commerce for Brazil feels that the present conditions are such as to permit the Brazilian Government to place the suggested measures into effect in the immediate future, so that their beneficial effect may be felt even before the end of this year.

832.5151/119: Telegram

The Ambassador in Brazil (Morgan) to the Secretary of State

RIO DE JANEIRO, February 6, 1933—2 p. m.
[Received 2:20 p. m.]

11. Department's telegram No. 19, February 3, 2 [5] p. m.²⁸ A preliminary report on the exchange situation was air mailed on February 4th.

The exchange restrictions imposed by the Brazilian Government to enable appropriations from commercial exchange supply funds to be

²⁸ Not printed; it inquired as to when the Department might expect a reply to its instruction No. 15, January 21, noon.

made to meet urgent foreign obligations have so depleted the supply as to deprive American and other foreign interests of full exchange. I am confidentially advised, however, the arrangements have been concluded whereby foreign oil companies will henceforth receive full current cover. Presumably other interests will fare as well. With the limits in May or June next of the Rothschild credit and the expected curtailment of other Government remittances it may be anticipated that the general exchange will be eased and that attention will then be given to accumulated milreis.

MORGAN

832.5151/122 : Telegram

The Secretary of State to the Ambassador in Brazil (Morgan)

WASHINGTON, February 21, 1933—5 p. m.

37. The Department approves the procedure proposed in the first two sentences of the last paragraph of your No. 4028, February 2, 1933, regarding exchange restrictions and hopes you will take early opportunity to discuss this matter with Brazilian authorities. It does not, however, believe that the proposal in the second numbered paragraph of the memorandum mentioned in the last sentence of your despatch would be advantageous to the interests of this country, all things being considered.

STIMSON

832.5151/129 : Telegram

The Ambassador in Brazil (Morgan) to the Secretary of State

RIO DE JANEIRO, March 10, 1933—1 p. m.

[Received March 10—12:25 p. m.]

33. Department's telegram No. 37, February 21, 5 p. m. Director of Exchange Bank of Brazil,²⁹ who speaks for Minister of Finance, tells me that pending the liquidation of the present Rothschild short-term loan within the next 3 months he is negotiating with Stefani, Rothschild's representative here at present, for a long-term loan which will be applied to alleviating accumulated commercial exchange. Bank is paying 20,000 pounds (sterling) a day under the present short-term loan which will be reduced to 8,000 pounds (sterling) a day under the short [*long?*] term. This statement the exchange director has repeated to reliable witnesses including Mallet-Prevost of New York City with whom he had an interview last week.

MORGAN

²⁹ Carlos de Figueiredo.

832.5151/129 : Telegram

The Secretary of State to the Ambassador in Brazil (Morgan)

WASHINGTON, March 14, 1933—7 p. m.

42. Your 33, March 10, 1 p. m. Please follow closely developments in this matter and keep the Department informed. As soon as details become available, report how the loan will be applied to alleviating exchange and just when the relief should be expected.

It is, of course, assumed that the exchange cover made available from the anticipated loan would be allocated without discrimination among foreign interests. You may wish to mention this discreetly to the appropriate authorities.

The Department awaits with interest further report of the results of your discussion of exchange difficulties. (See Department's telegram No. 37, February 21, 5 p. m.)

HULL

832.5151/129 : Telegram

The Secretary of State to the Ambassador in Brazil (Morgan)

WASHINGTON, March 28, 1933—7 p. m.

45. Information has reached the Department through an apparently reliable channel that a special Rothschild representative reached Rio March 10, and would soon present a plan "for the settlement of Brazil's foreign debts in Europe".

Please cable verification and all obtainable pertinent information. Indicate, if possible, (a) whether any special favors to British interests in allotment of exchange are involved and (b) whether any other agreement is being simultaneously negotiated which would affect commerce between Brazil and Great Britain.

HULL

83251/755 : Telegram

*The Ambassador in Brazil (Morgan) to the Secretary of State*RIO DE JANEIRO, March 30, 1933—noon
[Received March 30—10:30 a. m.]

38. Department's 45, March 28, 7 p. m. As reported by telegram 33, March 10, Stefani, Rothschild's representative, is conferring on terms long-term loan to substitute present short-term loan. No special commercial or exchange favors to British interests contemplated and rumors to that effect are untrue.

Will report shortly regarding activities of representative of Lazard Frères now in Santiago.

MORGAN

83251/757 : Telegram

The Ambassador in Brazil (Morgan) to the Secretary of State

RIO DE JANEIRO, March 30, 1933—4 p. m.

[Received March 30—3 p. m.]

39. Embassy's 38, March 30, noon. Conversation with Foreign Office leads to the belief that British propositions regarding commercial or exchange favors will not be made to Brazil until the outcome of the present British negotiations with the Argentine are successful.³⁰ Brazil would be susceptible to British negotiations if favors should be extended to Brazilian oranges in British markets. The oranges export industry is new and promising.

Brazilian Consul General in New York reports to Foreign Office that the imposition of tariff duties on coffee, cacao and other articles which Brazil exports to the United States is imminent in order to increase our national revenue. Is it not probable that the owners of frozen Brazilian exchange are stimulating this movement in the hope of obtaining the satisfaction of their immediate needs in compensation for the suspension of such duties?

MORGAN

832.5151/164 : Telegram

The American Chamber of Commerce for Brazil to President Roosevelt

RIO DE JANEIRO, May 12, 1933—8:18 a. m.

During past 2 months exchange allotted American imports has been constantly reduced, now practically nil, creating an intolerable condition, threatening very existence American trade here without prospect relief even though American purchases from Brazil 3 times as large as sales, furnishing Brazil large favorable balance which is being unjustly diverted to other countries. American companies and exporters are being compelled to discontinue shipments which will soon result closing American branch houses and practically annihilate already diminished American exports. Consequently we urgently and strongly recommend our Government insist with Brazilian delegation en route Washington that delegation cable Government here for immediate relief. While this Chamber strongly favors reciprocal commercial treaty, this will probably require many months negotiation. In meantime exchange problem is paramount issue requiring urgent solution and should precede other negotiations. Present opportunity must be used to insist that Brazilian Government immediately furnish

³⁰ For correspondence concerning the Anglo-Argentine (Roca) Agreement, see vol. iv, pp. 722 ff.

exchange for (1) recent unpaid shipments, (2) new current requirements, (3) frozen funds.

Respectfully,

American Chamber Commerce, Brazil
SLOAT, *President*

832.5151/138 : Telegram

The Chargé in Brazil (Thurston) to the Secretary of State

RIO DE JANEIRO, May 16, 1933—11 a.m.

[Received May 16—9:55 a. m.]

52. The American Chamber of Commerce has formally inquired whether the Embassy will endeavor to obtain information from the Bank of Brazil regarding the amount and disposition of the foreign exchange it has granted during the past 6 months. An inquiry on this subject at this time would be construed as having been made on behalf of the Department in connection with the impending conversations at Washington. Does the Department desire this information or does it prefer that I shall decline to accede to the request of the Chamber?

THURSTON

832.5151/138 : Telegram

The Secretary of State to the Chargé in Brazil (Thurston)

WASHINGTON, May 18, 1933—2 p.m.

49. Your 52, May 16, 11 a. m.

(1) No objection is perceived to the Chamber of Commerce itself asking the Bank for the information it desires and to your giving the request informal support if the information is not forthcoming within a reasonable time.

(2) Separately acknowledge receipt of Chamber's telegram of May 12 to the President regarding Brazilian exchange stating it will receive due consideration but that the primary purpose of the visit of special delegation is to discuss matters to be considered at Monetary and Economic Conference²¹ rather than any bilateral arrangement with this Government.

HULL

832.5151/139 : Telegram

The Consul General at Rio de Janeiro (Lee) to the Secretary of State

RIO DE JANEIRO, May 19, 1933—11 a. m.

[Received May 19—10 a. m.]

According to an interview in a local newspaper Minister of Finance has declared that special exchange facilities cannot be granted for

²¹ See vol. I, pp. 452 ff.

American exports to Brazil in spite of the fact that the United States purchases for cash half of all Brazilian exports. Portuguese phraseology used by Minister of Finance equivalent to saying that he has no intention of doing anything to relieve the disadvantage under which American trade with Brazil now operates.

LEE

550.S1 Wash./579

Memorandum by Mr. W. R. Manning of the Division of Latin American Affairs

[WASHINGTON,] May 20, 1933.

Yesterday at 10 a. m. there occurred in the conference room of the Secretary of State the conversation previously arranged with the special Brazilian delegation sent to discuss with representatives of this Government the measures that are to come before the Monetary and Economic Conference at London. The following representatives of Brazil were present: Dr. Joaquim Francisco de Assis Brasil, Chairman of the delegation; Dr. Joaquim Eulalio do Nascimento Silva, delegate; Dr. Numa de Oliveira, delegate; Dr. Heitor Freire de Carvalho, delegate; Dr. José Nabuco, Legal Adviser; Dr. Valentim F. Bouças, Technical Adviser; and Dr. Acyr do Nascimento Paes, Secretary. (Dr. Oscar Weinschenck, delegate, and Sr. Augusto Amaral, Technical Assistant, had not yet arrived.) Representing this Department were the Secretary of State, present for five or ten minutes at the beginning; Mr. Bullitt, Assistant to the Secretary; Dr. Feis, Economic Adviser, Mr. Sussdorff, of EA; ^{31a} Mr. E. C. Wilson, Chief of the Latin American Division, and Messrs. Merrill and Manning of that Division. Mr. Tugwell of the Department of Agriculture and Senator Pittman, of Nevada, were also present. After the brief preliminary statement by the Secretary of State, Dr. Feis, the Economic Adviser, explained (after giving opportunity to the Brazilian delegates to make any preliminary statement they might desire, and after Dr. Assis Brasil, the Chairman, had said they preferred, at least at first, to listen rather than speak), as had been done, he stated, in previous similar conversations, the matters which it is anticipated will be considered at the London Conference, emphasizing especially those bearing upon monetary and other financial considerations.

Allusion having been made to the persistent report that the Congress of the United States has been urged to consider placing an import duty or possibly some internal tax on coffee, which it is the desire of this Department to obviate if possible, and reference being made to persistent reports that American interests in Brazil are not

^{31a} Office of the Economic Adviser.

receiving entirely equitable treatment in the distribution of exchange to transfer credits from that country to this, Dr. Feis observed that if the Brazilian delegation could give to the Secretary of State a brief written assurance that completely fair and equitable treatment would be accorded by Brazil to all American interests concerned in Brazilian trade and commerce as regards the service of loans and the distribution of foreign exchange cover under the exchange control, the Secretary might thereby be enabled to use his good offices more effectively, in his efforts, should the occasion for their exertion arise, to obviate the possible levy of a tax on coffee. Responding to this suggestion on behalf of the delegation, Dr. Eulalio spoke for ten or fifteen minutes, exhibiting no little emotion in emphasizing the undesirable effects which he believed the levy of a tax on coffee would have on trade relations with Brazil and on the attitude of Brazil and other Latin American coffee producing countries toward this Government. Arrangements were made for the delegation to return at 3 p. m. on the same day to give further consideration to the matters just mentioned.

W. R. MANNING

832.5151/142

Memorandum by Mr. W. R. Manning of the Division of Latin American Affairs

[WASHINGTON,] May 20, 1933.

SPECIAL CONFERENCE WITH THE BRAZILIAN DELEGATION REGARDING
THE DISTRIBUTION OF EXCHANGE COVER

At 3:00 P. M. the three officials of the Latin American Division who had been present at the morning conference,³² accompanied by Mr. Grosvenor Jones, Chief of the Finance and Investment Division of the Department of Commerce, and Mr. Corliss, the Latin American Specialist in that Division, attended the arranged second conference with the Brazilian delegation in the Secretary's Office to consider the matter referred to above. Mr. E. C. Wilson stated at some length the seriousness of the situation with which the two interested Departments represented and their officers in Brazil were confronted, growing out of numerous recent reports regarding increasing difficulties experienced by United States interests in Brazil in obtaining what they considered fair and adequate exchange cover to transfer to this country their accumulated milreis credits. He referred to the predominant role the United States plays as a consumer of Brazilian products, pointing out that we take about 50% of Brazil's

³² Of May 19, 1933.

exports and furnish only 25% of Brazil's imports. In 1932, for instance, we bought over \$83,000,000 from Brazil and sold only \$32,000,000 of goods, thus furnishing Brazil with \$50,000,000 of her total favorable merchandise balance of \$72,000,000 for that year. Mr. Wilson also mentioned the recent British-Argentine agreement and stated that we were opposed to such preferential treatment as was given by that agreement, but that if this indicated a tendency on the part of the various countries to profit by the special position they occupied in trade with other countries, the United States could not ignore this situation. He said that personally he felt convinced that if in the long run American interests were unable to obtain equitable treatment in exchange matters this Government would be obliged to put into effect an arrangement under which it would retain in this country a certain percentage of the dollar exchange arising from its purchases from abroad.

At the request of the Brazilians Mr. Wilson presented a draft statement giving his views of what the Brazilians might wish to embody in a declaration regarding equitable treatment by Brazilians of United States interests in the allotment of exchange.

Dr. Eulalio stated briefly that he personally believed the delegation would have no hesitation whatever in making such a statement as that which Mr. Wilson had suggested; and that they would communicate regarding the matter with their Government. They hoped for a reply by Monday.

Dr. Oliveira spoke for probably half an hour, asserting that there was a serious misunderstanding with reference to the distribution of exchange in Brazil, that the interests of this country had received and are receiving an equitable share of the exchange available, that Brazil is keenly alive to the fact that the United States is by far the best customer for Brazil's exports and that, therefore Brazil is even more concerned in giving fair treatment to the interests of this country than these Departments or their representatives could be. He pointed out that the Rothschild credit had been obtained from England primarily because American bankers had called in their credits in Brazil, and that now with the proceeds of the Rothschild credit the American banks had been paid off in full. He said it was contemplated that when the existing Rothschild credit is paid off (and he thought the Bank of Brazil was prepared to pay it all and probably would do so the next day) a new credit of six or six and a half million pounds Sterling now under negotiation would, it was supposed, be obtained through Rothschilds and if so the proceeds would be used to release the frozen milreis credits. Dr. Oliveira having expressed a belief that this would be adequate to cover all existing frozen credits in Brazil Mr. Wilson observed that reports reaching this Department indicated that United States interests alone had in Brazil accumulated milreis

credits which were conservatively estimated at more than that amount, naming \$25,000,000 to \$50,000,000 as the reported values of such United States frozen credits. In response a belief was expressed by the Brazilians that this large amount probably included stocks of unsold goods in Brazil belonging to United States interests instead of being confined to milreis actually obtained for goods already sold.

In conclusion a tentative agreement was made for another conference with the Brazilian delegates early next week, probably Monday, at which general economic matters to come before the conference in London would be given further consideration (yesterday morning's conference having dealt pretty exclusively with monetary and other financial matters); and a definite hour for this conference was to be communicated later to the delegation.

W. R. MANNING

550.S1 Wash./639

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] May 23, 1933.

FOURTH MEETING WITH THE BRAZILIAN DELEGATION,
TUESDAY MORNING, MAY 23, 11 A. M.³³

The entire Brazilian delegation was present. Messrs. Feis, E. C. Wilson, Manning, Merrill, Jones and Corliss attended. The Secretary came in for part of the meeting. Governor Cox came in for a moment and met the Brazilians.

Discussion of the exchange situation was resumed. Dr. Brasil said he had received instructions from his Government in the matter. He felt the statement submitted to him at the meeting on May 19 seemed to imply that the Brazilian Government had not given fair treatment to American interests in the past, and his Government of course took the position that it had always given fair treatment. . . .

. . . Finally, agreement was reached on the following statement, which Dr. Brasil requested that the State Department make public:³⁴

"In the course of the conversations with the Secretary of State regarding policies to be pursued at the Monetary and Economic Conference, the Brazilian mission takes the opportunity to make the declaration that it feels there is a strong identity of purpose and policy between the two Governments.

³³ For report of the third meeting with the Brazilian Delegation, see vol. I, p. 514.

³⁴ Released May 23; see Department of State, *Press Releases*, May 27, 1933, p. 385.

"The Brazilian mission takes the further opportunity to declare that the Brazilian Government assures and will always assure all American interests completely fair treatment in connection with the service of loans and the disposition of exchange under the exchange control. It will in no way discriminate between different nations."

Dr. Numa de Oliveira then said that the delegation was authorized to deliver a confidential message to the Secretary of State to the effect that the Brazilian Government was so certain that no discrimination existed regarding allotment of exchange to American interests that the Government would allow the American diplomatic representative to go into the records of the Bank of Brazil to satisfy himself in the matter. The Brazilian delegation presented the text of a confidential message reading as follows:

"The Brazilian Government is so convinced that there was no discrimination at all in the supply of exchange detrimental to the American interests in Brazil that the Brazilian Government is prepared to accord the American diplomatic representative in Brazil the privilege of satisfying himself of this fact from the records of the Bank of Brazil."

Dr. Feis stated that this was most satisfactory and he felt would furnish a means of conclusively satisfying all concerned that fair treatment was being accorded.

At this point the Secretary came in and was informed of the statement and confidential message made by the Brazilians. He expressed his appreciation of their attitude in the matter.

After the Secretary withdrew Dr. Feis completed the discussion begun at the last meeting of the economic questions to be dealt with at the London Conference.

At the close of the discussions Dr. Brasil inquired whether it would be possible for the Secretary of State to give him some confidential message which he could cable to his Government giving the Secretary's views on the proposed coffee tax. It was agreed that we would put the matter before the Secretary and would advise Dr. Brasil later.

It should be added that in the discussion of the exchange questions Mr. Wilson referred again to the figure of six million pounds which Dr. Numa had stated would be sufficient to pay off all frozen commercial credits in Brazil, and inquired if the Brazilian calculation was made on the basis of the present official rate of exchange. Dr. Numa stated that this was so.

The field of the discussions concerning the London Conference and problems of Brazilian-American trade having been covered, no further arrangements for meetings were made.

EDWIN C. WILSON

Subsequently the Secretary signed a letter to Dr. Brasil reading as follows:

"In reply to your inquiry on the subject of reports of a proposed coffee tax, I may say to you in confidence that I believe such a tax inadvisable and very much hope from the point of view of our foreign relations that it will not be enacted."

832.5151/165

*The Secretary of State to Mr. Fred I. Kent, Supervisor of Exchange,
Federal Reserve Bank of New York*

WASHINGTON, May 26, 1933.

DEAR MR. KENT: I have your letter of May 19,³⁵ received here May 23, regarding the question of American frozen credits in Brazil, and appreciate the information and suggestions contained therein.

We have just completed a series of conferences with the Brazilian delegation to the World Economic Conference. In these discussions we raised quite frankly the question of exchange control and the prevalent opinion on the part of American interests that they were not obtaining fair treatment in the allotment of exchange in Brazil. You have doubtless seen in the press the declaration which the Brazilian delegation made on this subject, a copy of which I am attaching hereto.³⁶ During our conversations Dr. Numa de Oliveira, who speaks for the delegation on monetary questions, told us in strict confidence that the Bank of Brazil hoped to obtain a loan in England of some six million pounds for the purpose of liquidating blocked commercial credits. The Rothschild credit has either already been paid off in full or will be shortly. Evidently it is the intention of the Bank of Brazil to contract another credit in Great Britain, using the proceeds to pay off frozen commercial credits. Dr. Numa made it clear that if this loan was obtained in England the proceeds would be used without discrimination for the liquidation of frozen commercial credits held by the nationals of all foreign countries. He estimated that the sum of six million pounds would clear up the total of such frozen credits. We questioned this, pointing out that our figures indicated about \$26,000,000 of American frozen commercial credits alone. (Your letter of May 19 had not come to hand at the time of these discussions, but your figures bear out those that we have obtained.) Dr. Numa stated that he was convinced that part of this total of twenty-six million dollars consisted of credits representing unsold stocks of American companies, particularly oil companies, in

³⁵ Not printed.

³⁶ See memorandum of May 23 by the Chief of the Division of Latin American Affairs, *supra*.

Brazil. The purpose of the Bank of Brazil, he said, was to liquidate only the frozen commercial credits representing actual sales.

In your letter you raise the question whether the State Department could make an arrangement with the Brazilian Government under which the latter would agree to apply a stated percentage of the dollars received by Brazil from exports to the United States which could be so set up as to make a satisfactory collateral for a loan, enabling the Reconstruction Finance Corporation to advance funds for the repatriation of accumulated American credits awaiting transfer from Brazil. The State Department, of course, could not undertake to negotiate any such arrangement as this. However, I am told that in private talks which Dr. Numa de Oliveira had with some of our experts he stated that he intended to explore the possibilities of obtaining for the Bank of Brazil a credit from American commercial banks which would permit unfreezing of American commercial credits in Brazil. I understand that you are planning to have a talk with Dr. Numa in New York and I shall be interested in hearing your views after you have discussed this exchange problem with him.

Sincerely yours,

CORDELL HULL

832.5151/166

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] May 26, 1933.

General Palmer E. Pierce, Assistant to the President, Standard Oil Company of New Jersey, and Mr. E. P. Thomas, President, National Foreign Trade Council, called on Mr. White³⁷ by appointment; Mr. E. C. Wilson was present. They said that they intended to have a talk with Dr. Numa de Oliveira in New York regarding frozen commercial credits in Brazil and would like to get such information as was possible respecting the discussions that had taken place in Washington with the Brazilian delegation.

They were informed in confidence of the discussions concerning exchange control and of the assurances given by the Brazilian delegation regarding completely fair treatment for American interests.

They inquired whether the "plan" in Mr. Kent's letter to the Department³⁸ had been discussed with the Brazilians. They were shown Mr. Kent's letter, which in fact arrived after the discussions with the

³⁷ Francis White, Assistant Secretary of State.

³⁸ Mr. Kent's letter of May 19, not printed.

Brazilians had ended, and which contained no "plan" but merely stated that he would be glad to submit a plan for working out exchange difficulties in Brazil if the Department so desired. Messrs. Pierce and Thomas were told that arrangements had been made for Dr. Numa de Oliveira to meet Mr. Kent in New York, and have a talk with him this morning.

General Pierce said that the group of American exporters dealing with Brazil which had for some months past been discussing ways and means to clear up their exchange difficulties in Brazil, had been unable to come to any concrete result. It had once been arranged that Mr. Schoepperle of the National City Bank would go to Brazil, but this arrangement had fallen through. The inquiry was made of Messrs. Pierce and Thomas whether they had tried to get the assistance of American commercial banks in working out their difficulties. Private British banks had extended a loan of six and a half million pounds to Brazil, a large share of which had gone to pay off American banking credits to Brazil, and this British credit had now been paid up in full by Brazil. Furthermore, we understood that the Bank of Brazil was on the point of obtaining an additional credit in Great Britain. If the Bank of Brazil was a good risk for British bankers it was hard to understand why American commercial interests with their bankers could not get together and arrange to finance this matter of liquidating frozen commercial credits. General Pierce said that commercial banks in New York were not interested but that they had some hopes of getting the Reconstruction Finance Corporation to assist.

Messrs. Pierce and Thomas were told that this seemed to be a matter which private interests concerned should work out with Brazil and that we felt the Department had given them considerable assistance in obtaining the declaration from the Brazilian Government that completely fair and undiscriminatory treatment would be given American interests in the allotment of exchange. With this to work on as a basis we very much hoped that private interests could come to some arrangement which would permit the liquidation of frozen milreis accounts and provide adequate exchange for current transactions.

It might be added that during the conversation General Pierce volunteered the information that the Standard Oil Company was getting full cover for its current sales in Brazil. He said that gasoline and oil were necessities and that the Company, acting in concert with the other oil interests in Brazil, had brought pressure to bear on the Brazilian Government which resulted in their being granted sufficient exchange for current transactions. They have, however, considerable frozen milreis credits on account of past business.

EDWIN C. WILSON

832.5151/167

Mr. Fred I. Kent, Supervisor of Exchange, Federal Reserve Bank of New York, to the Secretary of State

[NEW YORK,] May 27, 1933.

DEAR MR. SECRETARY: Your letter of the 26th inst. with enclosure received and carefully noted and I am very much gratified at the manner in which you have handled the matter.

Dr. Numa De Oliveira called upon me yesterday and I spent two hours with him going over the Brazilian situation. We found ourselves in complete accord as to the necessity, from the standpoint of the interests of Brazil as well as the United States, to have the matter of blocked milreis deposits belonging to American exporters and investors released. Then I suggested to him a method by which this might be done provided the Reconstruction Finance Corporation was willing to take part.

The plan that I suggested, without going into detail, was that a loan of say \$30,000,000 be developed under which the Government of Brazil would agree to allot some stated percentage of dollars made by exports from Brazil to the United States monthly to the retirement of the loan, including interest and sinking fund, and further that all future exports from the United States to Brazil be paid for as the milreis became available in Brazil.

Dr. De Oliveira agreed with me that this would solve the problem if the Reconstruction Finance Corporation would be willing to make advances against the loan carrying agreements of this character. He stated, however, that he would like to have the detail handled a little differently, namely that the Bank of Brazil be the borrowing agent instead of the government but that the government guarantee the loan of the Bank of Brazil and that in the loan agreement the Bank of Brazil would utilize the dollar bills of exchange received by it for exports from Brazil to the United States monthly in such stated amounts as would retire the loan in six years. Further, he stated that he believed it advisable to have the agreement handled by the regular American bankers from Brazil, which of course is sound as there is no excuse for us to demand any change in the fiscal agents with whom Brazil has worked in the past.

While I talked over this question with the President of the Reconstruction Finance Corporation just before the change of the administration, yet I have not taken it up with the present officers and consequently do not know what their opinion may be. It did not seem wise, however, to do this until I had some tangible evidence that the Brazilian Government would be interested.

At the close of the conference yesterday Dr. De Oliveira stated that he would cable to the Brazilian Government and request them to reply in such manner as to carry authority to close the operation, provided it could be accomplished in this country. We are to take luncheon together Monday, when Dr. De Oliveira hopes to have a return cable, after which I will write you again and let you know what developed.

Sincerely yours,

FRED I. KENT

832.5151/168

Memorandum by the Chief of the Division of Latin American Affairs (Wilson)

[WASHINGTON,] June 2, 1933.

General Palmer E. Pierce, of the Standard Oil Company of New Jersey, telephoned to say that representatives of American interests doing business with Brazil had been having conversations with Dr. Numa de Oliveira in New York regarding ways and means of liquidating frozen commercial assets and dividend payments in Brazil. They have been discussing an agreement under which the Bank of Brazil would pay immediately all accounts up to the amount of \$50,000 at the official rate of exchange, 13.3 milreis to the dollar, and would discharge accounts in excess of \$50,000 by delivery of bills of exchange which would be paid monthly over a period of six years with interest at four percent. In the text of the agreement which they were discussing with Numa de Oliveira they had proposed the following:

"The Bank of Brazil agrees that payment of any and all bills of exchange accepted by it hereunder shall be provided as a first charge on exchange made available from exports from Brazil to the United States."

General Pierce said that Dr. Numa de Oliveira was objecting to the above-quoted proposal on the ground that in the discussions which the Brazilians had held in Washington we had pronounced ourselves as opposed to the principle of such an arrangement as that embodied in the recent Anglo-Argentine agreement regarding allotment of exchange.⁸⁹ General Pierce said that they had decided to omit at the end of the paragraph the words "to the United States," so that the first charge in favor of the bills of exchange would be simply against "exports from Brazil". General Pierce inquired what the views of this Department would be regarding such an arrangement. I told General Pierce that I could not express any views offhand on behalf of the Department, and that if he wished our views he should submit the

⁸⁹ See vol. iv, pp. 722 ff.

complete text of the proposed agreement. I said, however, that of course this Government would not at this time negotiate any agreement with Brazil based on the principle of allotting exchange according to purchases from Brazil. We were opposed to this principle as it appears in the Anglo-Argentine agreement and hoped that at London we might be able to take steps looking towards the ultimate removal of this whole paraphernalia of exchange controls. Furthermore, I said that the agreement which was being put up to Dr. Numa de Oliveira obviously provided exchange for the commercial and public utility interests dealing with Brazil and was silent as to the interests of American holders of Brazilian bonds. I said that this Government would not take any position which would favor one group of American interests in Brazil as against another.

General Pierce said that he appreciated that this Government would not wish to have one set of American interests discriminated against in Brazil, but that the Brazilian Government was anxious to clear up these frozen commercial credits, believing that would be the initial step in improving trade with Brazil, and that once trade improved there would be an opportunity to take care of the bondholders. He said that the arrangement he had mentioned was of course one between private interests in this country and the Bank of Brazil and that this Government would not come into the picture.

I asked if there was any thought that commercial banks or the Reconstruction Finance Corporation would take part in this arrangement. He said no, that the banks wished to keep out of it and that this would be simply an arrangement between the commercial and public utility interests and the Bank of Brazil. I said that I wished to make it clear again that this Department was expressing no opinion in the matter.

EDWIN C. WILSON

832.51/775

The Chargé in Brazil (Thurston) to the Secretary of State

No. 4110

RIO DE JANEIRO, June 2, 1933.

[Received June 10.]

SIR: I have the honor to report that official announcement has been made of the payment, in advance, on May 31, 1933 of the final installment due the British banking firm, N. M. Rothschild & Sons, by the Government of Brazil, resulting from certain overdrafts incurred by the previous constitutional government.

The total amount paid by Brazil in disposing of this special credit is stated to have been £6,906,137-16-0, which of course includes interest, commissions, and other charges.

The local newspapers have greeted the liquidation of this account with commendatory editorials, the general trend of which is that the overdrafts in question constituted a debt of honor which it was essential that Brazil should meet at any sacrifice in order to safeguard its credit.

The withdrawal of the Bank of Brazil from the exchange market, to which it has had recourse during the past year to the extent of an average of £500,000 monthly for the Rothschild service, as well as the reports from New York which indicate that a workable plan for the liquidation of frozen milreis accounts of American enterprises operating here is about to be concluded have been very encouraging to local businessmen. While no change has yet been made in the official rates at which the Bank of Brazil handles Dollar transactions—namely, 13\$040 and 13\$300—the illicit exchange market has responded to a notable extent, Dollar check transactions having dropped from a recent rate of 18\$500 to a quoted rate today of 15\$000 and 15\$800.

Respectfully yours,

WALTER C. THURSTON

832.5151/146

*The President of the National Foreign Trade Council (E. P. Thomas)
to the Acting Secretary of State*

NEW YORK, June 15, 1933.

DEAR MR. PHILLIPS: Following negotiations instituted about the first of June between Dr. Numa de Oliveira and Mr. Valentim C. [F.] Bouças representing the Brazilian Government and the Banco do Brazil and the Committee representing American holders of approximately \$25,000,000 of blocked currency in Brazil, an Agreement has been reached in the terms set forth in the enclosed printed copy.

I am also appending for your interest copies of the letter of submission by the sub-committee and the letter accompanying the Agreement⁴⁰ which is being sent to all firms having these blocked currencies advising them as to the steps to be taken to convert them into American currency.

This matter has engaged the attention of the Council for several months past and we feel the solution now arrived at will greatly aid in overcoming one of the greatest handicaps to the restoration of normal trade with Latin America. It further provides a definite settlement of the frozen balances and it enables American firms to resume their normal trading position with Brazil, with a greatly improved prospect of their future drafts for sales being met at maturity.

⁴⁰ Neither letter printed.

It is proposed to continue this work with other South American countries where similar problems exist, and your interest and cooperation will be appreciated as this important work progresses.

Very truly yours,

E. P. THOMAS

[Enclosure "4"]

Draft Agreement Between the Banco do Brasil and Certain American Firms

Agreement, executed in the City of New York, New York, this of June, 1933, between BANCO DO BRASIL, as Principal, hereinafter called "Banco", and the FEDERAL GOVERNMENT OF THE UNITED STATES OF BRAZIL, as Guarantor of Banco, parties of the first part, both herein represented by His Excellency Dr. Rinaldo de Lima e Silva (Brazilian Ambassador to the United States, or his designate) and—

The Texas Company (South America) Ltd.
Electric Bond and Share Company
American & Foreign Power Company, Inc.
Standard Oil Company of Brazil
Atlantic Refining Company
Westinghouse Electric International Company
The Caloric Company

for and on behalf of themselves, or their subsidiary companies, and on behalf of other companies, firms and individuals who may hereafter become parties signatory hereto, in the manner hereinafter set forth, parties of the second part;

WHEREAS, the parties of the second part of their subsidiary companies have in Brazil, on the date of this agreement, Brazilian currency awaiting conversion into currency of the United States of America, in amounts set opposite their respective signatures, and

WHEREAS, the parties of the first part desire to supply such exchange without delay or restriction,

WITNESSETH:—

In consideration of the mutualities hereof it is agreed as follows:

1. Banco agrees to receive from each of the parties of the second part the respective sums in Brazilian currency set opposite their signatures, which Banco agrees to convert into New York dollar funds, as hereinafter set forth.

2. Upon payment by any party of the second part of the above respective amounts in milreis to Banco, which payment shall be made on or before June 30, 1933, Banco shall deliver to the party of the second part so paying its seventy-two (72) bills of exchange in U. S. A. dollars in equal amounts accepted by Banco, or at its option

⁴ Filed separately under 832.5151/155.

its promissory notes in like amounts in either case guaranteed and endorsed by the Federal Government of the United States of Brazil payable in New York funds calculated as follows:—

The total amount of milreis delivered by such party of the second part to Banco shall be converted into U. S. A. dollars at the rate of exchange of 13.965 milreis per dollar. The resultant amount of dollars shall be increased by twelve percent (12%) representing interest at the rate of four percent (4%) per annum for three (3) years. The seventy-two (72) bills of exchange or notes shall be dated July 1, 1933 and shall mature one each calendar month following the date of issue and shall be payable without discount or extension of time by the fiscal agent appointed by the Brazilian Government, in the City of New York, in U. S. A. dollars.

3. Banco agrees to reserve from the exchange made available out of exports from Brazil the necessary amounts to meet on maturity any and all bills of exchange or notes delivered by it hereunder.

Banco further guarantees to each of the parties of the second part, on the request of the latter, out of said exchange and after the payment of such bills as and when matured, a preference in the supply of U. S. A. dollar exchange sufficient for the current needs of each of the parties of the second part, from the date of this agreement on and until payments of all of the bills of exchange delivered hereunder. By current needs the parties intend to refer to amounts necessary for the importation of merchandise, for earned interest and dividends and any and all other essential charges.

4. Banco agrees to provide, within ninety days (90), at its current official rate, U. S. dollar exchange for the conversion of all blocked milreis deposits held on the date of this agreement by parties entitled to become signatories of this agreement having blocked milreis, on the date of this agreement, not exceeding in any one case 665,000 milreis, subject to the verification of the amounts by the Banco do Brasil; the aggregate of such dollar exchange not to exceed one million (\$1,000,000.00) U. S. A. Dollars.

5. All questions which may arise relative to the interpretation or fulfillment of this agreement shall be decided by arbitration in the form and manner to be agreed upon between the parties.

6. Banco and the Federal Government of the United States of Brazil agree that no arrangement relative to exchange shall be made with any other country or the nationals of any other country, more favorable than the terms of this agreement or make any other arrangement which may interfere with the orderly carrying out of this agreement.

7. Any company, firm or individual national of the United States of America, or subsidiaries of any such company having on the date of this agreement blocked milreis or blocked dollars awaiting exchange

in Brazil, may become a party of the second part hereto by executing and delivering to Banco or the fiscal agents referred to in paragraph 2 on or before June 30, 1933, a counterpart hereof with the amount of such blocked milreis so presented by him, it or them set opposite his, its or their signature.

8. This agreement shall become effective immediately upon the fixation of signatures of the representative of the parties of the first part and of the parties of the second part, provided the aggregate amount of blocked milreis possessed by the latter on the date of this agreement, as set forth opposite their respective signatures, shall at least equal the sum of one hundred and fifty thousand (150,000) contos of reis.

9. It is understood and agreed that the parties of the first part may address any or all communications intended for the parties of the second part as a whole to the Chairman of the Council on Inter-American Relations, 1 Hanover Square, New York, who will be authorized to act for each of the parties of the second part in the manner and to the extent that each such party, in its discretion, may hereafter state in writing. Duly authenticated attestation of any such authority shall be transmitted to the parties of the first part.

This does not preclude either of the parties of the first part or any of the parties of the second part from communicating with or negotiating directly with the other party in respect to any question or matter relating to the interpretation of this agreement or arising in the operation thereof.

10. The Banco do Brasil will satisfy themselves that milreis balances tendered by trading concerns under the provisions of this agreement conform to the description set out according to paragraphs 1 and 7 hereof, and for the purpose of dealing with questions or difficulties arising under this agreement the Bank hereby appoint Messrs. Haskins and Sells to act in conjunction with the Bank.

IN WITNESS WHEREOF the parties have caused these presents to be duly executed in ten original counterparts the day and year first above written.

BANCO DO BRASIL

By

FEDERAL GOVERNMENT

OF THE UNITED STATES OF BRAZIL

By

Signature of company, firm or individual accepting, and becoming a party of the Second Part, to this agreement:

Amount.....

ATTEST:

Name.....

Officer's Signature.....

Secretary

Title.....

832.5151/149a : Telegram

*The Acting Secretary of State to President Roosevelt*⁴²

WASHINGTON, June 27, 1933—10 p. m.

24. An important question of economic policy is presented for immediate determination. It is a conflict between American citizens owning Brazilian bonds represented by the bankers on the one hand and a larger number of American exporters to Brazil whose credits have been frozen by governmental arbitrary control of exchanges. In Brazil blocked American currencies aggregate between thirty and thirty-five millions of dollars. To liberate these currencies American exporters like the Standard Oil Company, Westinghouse Electric International Company, Atlantic Refining Company, the Caloric Company, Electric Bond and Share Company, the Texas Company and others are consummating an agreement with the Bank of Brazil, with the Federal Government of the United States of Brazil as guarantor. This is the result of several months of negotiations by the National Foreign Trade Council and the Council of Inter-American Relations and the agreement has the strong approval of Mr. Fred Kent who purposes to promote similar agreements with other Latin American countries if this is approved.

The agreement with Brazil must be signed by all American exporters desiring to participate in its benefits on or before June 30, 1933. The major beneficiaries of course would be the companies hereinbefore mentioned. The agreement provides that:

"The seventy-two (72) bills of exchange or notes shall be dated July 1, 1933 and shall mature one each calendar month following the date of issue and shall be payable without discount or extension of time by the fiscal agent appointed by the Brazilian Government, in the City of New York, in U. S. A. dollars.

"3. Banco agrees to reserve from the exchange made available out of exports from Brazil the necessary amounts to meet on maturity any and all bills of exchange or notes delivered by it hereunder.

"Banco further guarantees to each of the parties of the second part, on the request of the latter, out of said exchange and after the payment of such bills as and when matured, a preference in the supply of U. S. A. dollar exchange sufficient for the current needs of each of the parties of the second part, from the date of this agreement on and until payments of all of the bills of exchange delivered hereunder."

The agreement also provides in Section 4 that smaller blocked accounts shall be liberated within ninety days provided the aggregate of such accounts does not exceed one million dollars.

This Department is in receipt of letters of complaints written by American citizens owning Brazilian bonds requesting governmental

⁴² On board the U. S. S. *Ellis* at sea.

intervention in their behalf. Senator Borah and others have transmitted such letters to us. These holdings among American citizens aggregate many millions of dollars. A committee known as the American Committee on Brazilian State and Municipal Loans representing these bond owners has had conversations with Mr. Kent and has also sent protests to this Department. This committee known as the bankers as contradistinguished from the industrialists or exporters has made arguments in the public press and in economic magazines that the success or failure of commerce depends in considerable measure upon the security of such loans. Their view is that it is unfair to give the exporters the exclusive benefit of the liberation of exchanges; that in fairness there should be some proration of available exchange in Brazil between the exporters on the one hand and the bondholders on the other hand.

Manifestly the Department is without power to approve such an agreement; probably it has no power to disapprove. In accordance with your standing instructions we have been announcing the policy that the Department can not undertake to express any opinion with respect to the advisability or propriety of foreign undertakings and that individuals and corporations engaging therein do so upon their own responsibility and at their own risk. In view of the fact that the present situation is somewhat different and presents a preference in favor of one group of American creditors as against another group of American creditors, I feel uneasy. In the circumstances, I am venturing to inquire whether you have any instructions to give which would supplement your standing instructions.

PHILLIPS

832.5151/150 : Telegram

President Roosevelt to the Acting Secretary of State

U. S. S. "ELLIS," June 29, 1933—9 a. m.

[Received 12:15 p. m.]

17. Your telegram Brazilian bonds. I think we must maintain position of non-interference in all transactions between American private citizens and foreign governments with following exception: if Brazil seeks to give preference to one type of American creditor over another we can transmit at request of creditor discriminated against his protest to Brazilian Government. In other words tell Brazilian Government only that we have received the protest. Am not clear as to what this is all about and can therefore give you only snap judgment.

ROOSEVELT

832.5151/146

The Acting Secretary of State to the President of the National Foreign Trade Council (E. P. Thomas)

WASHINGTON, June 29, 1933.

DEAR MR. THOMAS: I have seen with interest the agreement between the Banco do Brasil and certain American organizations and firms transmitted with your letter of June 15. The Department has received certain informal inquiries regarding in particular the provision in Section 3 of the agreement for a preference in the supply of dollar exchange sufficient for the current needs of signatories to the agreement.

The Department is taking the position that it cannot undertake to express any opinion with respect to the advisability or propriety of a contract of this kind and that individuals and corporations engaging therein do so upon their own responsibility and at their own risk.

We have also had in mind the statement made by the Brazilian Mission recently in Washington that "the Brazilian Government assures and will always assure all American interests completely fair treatment in connection with the service of loans and the disposition of exchange under the Exchange Control".

Sincerely yours,

WILLIAM PHILLIPS

832.5151/158

Memorandum by the Assistant Economic Adviser (Livesey)

[WASHINGTON,] July 6, 1933.

The *New York Times* of July 2 announced that claims aggregating \$13,490,000 had been filed up to June 30, the final date for subscribing to the Brazil transfer agreement. A total of 110 claims, accounting for roughly \$1,000,000 of this amount, was filed by companies having less than \$50,000 blocked in Brazil and therefore entitled under the agreement to transfer within 90 days. This would mean that the amount loaned to the Bank of Brazil, repayable over 72 months, was about \$12,500,000. The article adds:

"The amount of American funds blocked in Brazil was estimated at \$25,000,000 at the time the agreement was signed in June, but the export officials, who negotiated the plan, now believe that the total involved is covered entirely by the claims already submitted."

The article speaks throughout of these claims being filed by "exporters". It is possible, however, that they include some five or six million dollars earnings of Brazilian public utility companies, subsidiaries of the American and Foreign Power Company, one of whose officials

was a member of the committee of three which sponsored the agreement.

It is understood that British and French interests having frozen funds in Brazil expect to make similar agreements. Mr. Kent estimated their holdings in blocked milreis as equal to some \$30,000,000. In view of the precedents of the British agreement with the Argentine and the French agreement with Chile in making which Great Britain and France demanded that these countries having a favorable balance of trade with them, respectively, as Brazil has with us, should make the sterling and franc proceeds of their export sales available for allocation to British and French interests, respectively and solely, the obtaining by British and French interests of six-year equality of preferential treatment with the big American corporations in respect of the proceeds of Brazilian sales in the United States, should please Great Britain and France. Our example will perhaps shame and reform them.

Department of Commerce Bulletin No. 767 of 1931 estimated American long term investment in Brazil as \$216,166,000 direct investment and \$346,835,000 portfolio investment (the latter comprising \$139,643,000 of Brazilian National Government bonds, \$142,049,000 Provincial Government bonds, \$62,260,000 Municipal Government bonds, and \$2,883,000 private corporate bonds). The total American long term investment was thus \$563,001,000 which may be compared with an estimate in the *South American Journal*, May 27, 1933, that at the end of 1932 no less than £274,659,569 of Brazilian Government, State and Municipal bonds, railways and other securities were quoted on the London Stock Exchange. The latter article did not show how much of the British investment was direct investment such as might be benefited by an agreement like the present American agreement.

832.5151/162

The Chargé in Brazil (Thurston) to the Acting Secretary of State

No. 4161

RIO DE JANEIRO, July 20, 1933.

[Received July 29.]

SIR: I have the honor to inform the Department that the Rio de Janeiro newspapers of July 11 printed a Havas despatch from Paris dated July 9 transcribing the text of a decree issued by the Ministries of Commerce, Foreign Affairs, Agriculture, and Finance, in the following (translated) terms:

"In view of Article 17 of the decree of December 28, 1926, relative to the codification of the customs laws; in view of the decree of December

3, 1931, which established control of imports originating in or proceeding from certain foreign countries, we decree:

Article 1—The provisions of the decree of December 3, 1931 and the provisions of the interministerial decree of February 15, 1932, shall be applied to imports originating in or proceeding from Brazil and to transfers of French credits in that country;

Article 2—Inasmuch as the amounts furnished for purchases by France in Brazil greatly exceed the amount necessary for the normal transfer of French credits and for the liquidation of accumulations within a reasonable time, reconciling the interests of both parties, partial derogations may be conceded to the French importers with respect to special products up to a percentage which will be indicated by the Ministry of Commerce and Industry;

Article 3—With the purpose of facilitating an eventual understanding with the Brazilian Government the present decree shall enter into effect July 24, 1933."

The publication of this decree provoked an immediate outcry by the Brazilian press, although the restraint which characterizes its treatment of international questions, as well as the undeniable Brazilian sentiment of friendship for France, is reflected in most of the editorial comment on this subject. *A Nação*, which is considered to express the views of persons closely identified with the present regime, has been especially sharp in its criticism, describing the French decree as an ultimatum, and stating that Brazil ceased to be a colony in 1822. It points out that for some time past France has sought to provoke difficulties of various kinds for Brazil, citing the application to Brazil of the French import quota system, and the sale to it of useless war material. In this connection it remarks that France has refused to pay its war indebtedness to the United States, thereby placing itself at a par with Russia, which after the advent of communism refused to recognize its international debts. *A Nação* likewise states that the aggressive policy of France in the economic field has already victimized England and the United States, its old allies, and that Brazil therefore finds itself in good company. The *Diario Carioca* dealt more calmly with the subject, as did the much more important *Jornal do Brasil*. Translations of the editorials of the two newspapers last named are enclosed herewith.⁴³

On July 16 the Ministry for Foreign Affairs issued the following (translated) statement:

"Several newspapers of this capital have recently commented on the decree of the French Government, dated the 8th instant, which authorizes the retention of a part of the visible commercial balances, favorable to Brazil, to be applied to the payment of accumulated commercial credits (frozen credits) and the transfer of French credits in Brazil.

The Ministry for Foreign Affairs makes known that a note from the Brazilian Government has already been sent to the French Gov-

⁴³ Not printed.

ernment, in which it sets forth the true situation of the matter under discussion, and submits arguments which in its opinion prove the invalidity of the motives upon which that decree was based.

Duly appreciating the disposition shown by the French Government in the text of the decree in the sense of an understanding between the two Governments before it should be put into operation, the Brazilian Government hopes that a formula will be found capable of conciliating the interests of the two countries, whose relations always have been characterized by a sincere and loyal spirit of cooperation."

On July 18, the *Correio da Manhã* published an extensive interview with the French Ambassador on this subject, a translation of which likewise is enclosed herewith⁴⁴ and to which the Department's especial attention is directed. In connection with the statements made by Ambassador Kammerer, it should be mentioned that the agreement between the Bank of Brazil and N. M. Rothschild & Sons apparently was designed (Article 1) to apply to all milreis creditors other than nationals of the United States or of Brazil. It also will be recalled that the agreement entered into by the Bank of Brazil and the American milreis creditors provided (Article 6) that no arrangement relative to exchange would be made with any other country or the nationals of any other country more favorable than the agreement with the American milreis creditors.

Today's newspapers publish a United Press despatch from Paris, stating that the Brazilian Ambassador has announced to reporters that he is hopeful that negotiations being conducted by him with the French Ministries of Foreign Affairs and Commerce may result in a satisfactory arrangement before July 24, the date on which the French decree would be effective. The despatch concludes with the statement, presumably made by the Brazilian Ambassador, that the Ministry of Commerce bases its action upon three arguments, namely: that Brazil has concluded an agreement with the United States relative to credits; that the present French-Brazilian trade balance is favorable to Brazil; and, that the French are obtaining their funds under enormous difficulties.

Respectfully yours,

WALTER C. THURSTON

832.5151/192

The Ambassador in Brazil (Gibson) to the Secretary of State

No. 3

RIO DE JANEIRO, August 15, 1933.

[Received September 1.]

SIR: I have the honor to refer to the Embassy's despatch No. 4161, dated July 20, 1933, on the subject indicated above, and to transcribe

⁴⁴ Not printed.

below a translation of a statement by the Brazilian Foreign Office, published today.

"As a result of negotiations conducted by the Governments of Brazil and France it was agreed that the latter should suspend until September 15th next its decision of July 8th, as well as its complementary measures, and that the former would withhold promulgation of the decree of which it gave notice to the latter and which was to have been published on the 15th instant. Within this period an agreement will be reached directly and definitely for the liquidation of credits of purely and simply a commercial character, and other matters relative to the interchange between the two countries will be examined.

In this connection, I have the honor to inform the Department that I have been advised by some of my colleagues, notably the Belgian Ambassador, that other Governments entertain much the same opinion with respect to the agreement entered into by Brazil with Great Britain as that which induced the Government of France to issue its decree of July 8th.

Respectfully yours,

HUGH GIBSON

832.51/794

The Brazilian Ambassador (Lima e Silva) to the Secretary of State

[Translation]

No. 85

The Ambassador of Brazil presents his compliments to the Honorable the Secretary of State and has the honor to transmit to His Excellency the enclosed memorandum of which he spoke in the conversation of August 29.⁴⁵

WASHINGTON, September 5, 1933.

[Enclosure]

MEMORANDUM

Brazil, being a new country without capital, can only progress and equilibrate her balance of payments with the entrance of foreign capital which has been interrupted for various reasons since October 1929. In the two years 1930 and 1931 she has exported all her gold reserves, about 160 million dollars, to meet her foreign obligations. Notwithstanding this sacrifice and the exhaustion of these reserves she continues to owe to foreign bankers about 35 million dollars for commercial importation, etc. The increasing world depression has

⁴⁵ See memorandum of August 29 by the Chief of the Division of Latin American Affairs, p. 19.

not permitted Brazil to borrow new capital in foreign countries, and the uninterrupted low prices of her principal products of exportation obliged her to suspend payment in specie of the greater part of her external debt and contract a funding loan of 8 million, which was entirely executed. In order to pay the bankers the 35 million above-mentioned and to obviate a catastrophe resulting from the fall of exchange the Brazilian Government was compelled to give the Banco do Brasil a monopoly of the exchange. Within its own means the Banco do Brasil sought to impede evasion of capital and the sending of funds to Brazilians residing abroad, or for trips, thus demonstrating its determination to reserve disposable exchange of the country for commercial necessities and external obligations. It could not, however, make all the above payments but only amortize totally the bank credits with fixed terms and it has just made agreements in New York and London on frozen credits in Brazil owned by nationals of the United States and Great Britain. Notwithstanding this action the situation was not bettered as had been hoped, principally because the price of coffee, which represents 75% of the Brazilian exportation, suffered a tremendous decline in the past three months. A bag of coffee which had the value five years ago of one hundred shillings gold, and three months ago forty-four shillings, is now valued at only thirty-three shillings. For a country like ours which cannot equilibrate her international debts without the help of foreign capital it is necessary again to have this help which can only be obtained with the restoration of free foreign exchange, which will be controlled only in the sense of avoiding speculation. The Government will have the right to reserve a quota of not more than 30% of all the exchange offered for her foreign obligations. This will be the only restriction of free exchange. This seems to be the opportunity to work a credit for the purpose of acting as an exchange fund, since recent agreements on frozen credits have relieved the exchange pressure. The minimum credit to be asked must be fifty million dollars for the exclusive purpose of paying for imported merchandise. The annual quota for the interest and amortization of this credit must not exceed six million dollars. It is sufficient for Brazil to honor the drafts of the Banco do Brasil until that amount is reached. These drafts must be issued monthly over a period of sixteen months in equal amounts, but in case of emergency there may be drawn in one month an amount equal to four months. Paper money received in payment of these drafts of the Banco do Brasil will be taken out of circulation. The Brazilian exchange situation will be eased with the realization of this financial transaction and the stability of exchange would be guaranteed at about 4 pence per milreis.

The Brazilian Government may justify the request for the opening of this credit by several reasons, among them the following:

1. Different countries such as Austria, The Union of South Africa, etc., got important loans from various European countries for the purpose of guaranteeing continuation of their commercial transactions and bills of exchange.

2. Brazil has once more proved her desire to intensify commerce with the United States of America by making the recent agreement of the so-called frozen credits which amounted to 177 thousand contos, when in London the same agreement amounted to 260 thousand contos: Of Brazil's total imports 30% come from America and 19% from England.

3. The Brazilian Government has done its best to reduce her expenses principally on imported goods. In spite of this the commercial trade has not permitted Brazil to secure the balance of her accounts, because she does not possess the resources which she is now requesting.

4. With the opening of this credit Brazil could inaugurate a new trade policy with the United States.

832.5151/184 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 21, 1933—2 p. m.

[Received October 21—12:45 p. m.]

98. Letter received today from Fred Kent regarding French negotiations in regard to blocked milreis would indicate that he has not been kept informed of reports sent to the Department. Inasmuch as our own milreis agreement may shortly run into acute difficulties, suggest Kent be brought fully up to date.

GIBSON

832.5151/185 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 23, 1933—6 p. m.

[Received October 23—5:49 p. m.]

100. My 98. Minister for Foreign Affairs⁴⁶ tells me negotiations with them have broken down because of French insistence on preferential treatment inconsistent with agreements signed in New York and London. On Saturday French Chargé d'Affaires informed him that his Government considered Brazilian unyielding attitude had put an end to discussions and would put into effect immediately its decree reported in the Embassy's 4161, July 20, 1933.

⁴⁶ Afranio de Mello Franco.

Mello Franco expressed himself rather emphatically as to the high-handed methods used by the French in these negotiations. He said that his attitude had been the only one he could adopt with any respect for good faith. If, however, the French put their decree into effect there will probably be Brazilian retaliation. Please inform Kent.

GIBSON

832.5151/185 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, October 25, 1933—6 p. m.

87. Your No. 98, October 21, 2 p. m. A copy of No. 4161 of July 20, apparently the only report from your Embassy concerning French negotiations regarding blocked milreis, is being sent personally to Kent, although one went to the Federal Reserve Board as soon as it was received. Please report as to the apprehended difficulties mentioned in your last sentence.

The information in your No. 100, October 23, 6 p. m., is also being communicated to Kent.

HULL

832.5151/191

The Ambassador in Brazil (Gibson) to the Secretary of State

No. 78

RIO DE JANEIRO, October 27, 1933.

[Received November 4.]

SIR: I have the honor to refer to the Embassy's despatches numbered 4161, of July 20, 1933, and 3, of August 15, 1933, concerning the coercive measures being undertaken by France in its effort to exact from Brazil the exchange cover to which it felt itself entitled, and to furnish the Department herewith a copy and translation of Decree No. 23,264, issued on October 23, 1933, by the Brazilian Government⁴⁷ in response to those measures after negotiations to adjust the difficulty had failed. As was reported in the Embassy's telegram number 103, dated October 25, 3 P. M.,⁴⁷ the Brazilian Government has applied double tariff rates to French products, and has subjected the importation of French products to the regime of special license, and has established a similar license situation with respect to all exchange transactions with France.

The Rio de Janeiro newspapers have been unanimous in their approval of the action taken by the Brazilian Government, although several of them express regret that such a course should have become necessary.

Respectfully yours,

HUGH GIBSON

⁴⁷ Not printed.

832.5151/187 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 27, 1933—5 p. m.

[Received 5:20 p. m.]

106. Department's 87, October 25, 6 p. m. Have withheld report pending more definite developments which would enable me to accompany report with recommendations. American business interests here are encountering difficulties in securing exchange cover and are getting little encouragement from Figueiredo ^{47a} to hope for compliance with bank's commitments. A letter just received from Kent indicates that he is familiar with this situation and that he has written Figueiredo on the subject. In his letter Kent refers to a meeting of the signatories of the Exchange Agreement to be held "in November", date unspecified. I venture to express the hope that no definite action be taken or communication made after this meeting without the opportunity for me to express my views in the light of the general situation here.

In Kent's authority to control exchange we have a very powerful instrument for securing proper treatment for our nationals and if we use it skillfully I am convinced we can secure what we want ([and without?] bringing it into actual operation) not only on the matter of exchange but other questions in which American interests are involved. The recent action of the French Government has shown that unskillful use of such authority is distinctly harmful and not calculated to achieve its purpose with the Brazilian Government. Another thing to be borne in mind is that in this country the legal basis for our desiderata is not sufficient in itself and that personal relations are of equal or greater importance. If, therefore, it is possible to send Kent, whose authority in this matter is recognized, I am convinced that it would be the economical and effective way to deal with these important questions before they become acute.

GIBSON

832.5151/194

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] November 1, 1933.

Mr. Fred Kent, Supervisor of Exchange, Federal Reserve Bank of New York, came in and discussed the Brazilian exchange situation with Assistant Secretary Caffery, Dr. Feis, Mr. Livesey, and Mr. E. C. Wilson.

Mr. Kent was informed of Ambassador Gibson's concern regarding

^{47a} Carlos de Figueiredo, Director of Exchange Bank of Brazil.

exchange developments in Brazil, as set forth in Mr. Gibson's recent telegrams and letters. Reference also was made to the correspondence between Mr. Kent and Senhor Figueiredo, copies of which had been furnished by Mr. Kent to Mr. Gibson. (The Department had not been informed by Mr. Kent in this matter.)

Mr. Kent said that he felt that Figueiredo was playing the game in better fashion now and realized that Mr. Kent was in earnest. He said, for instance, that he had found that Figueiredo had not only been operating in New York but also in London in transferring Brazilian sums from New York to London. These operations had resulted in transferring such a large amount of Brazilian sums to London in advance of coffee exports that insufficient funds would be available to cover the exchange requirements under last summer's agreement with American exporters. Mr. Kent had brought this to Figueiredo's attention with the result that the latter had recently transferred back from London to New York £600,000. Furthermore, Mr. Kent said that a New York broker, who did most of Brazil's foreign exchange transactions, had recently sailed for Rio. Mr. Kent had commissioned this gentleman to speak plainly to Figueiredo, and felt that this visit would have beneficial reactions on Figueiredo. Mr. Kent said that these developments had occurred recently, and that he had written Mr. Gibson regarding them.

We then spoke of the Brazilian plan for servicing its foreign debt.⁴⁸ Mr. Kent repeated the views he had already expressed as to the soundness (with the one revision mentioned below), in his opinion, of the principles followed by the Brazilian Government in protecting its national credit first. He said, however, that in writing the Brazilian Finance Minister he had made it clear that this expression of his views had been based on the assumption, which he was not in a position to verify, that the Brazilian plan comprised the use of all the foreign exchange which could be made available for debt service.

It was pointed out to Mr. Kent that the Brazilian proposal to give 100% service, interest and sinking fund, to the funding loans, while other national loans would receive only a reduced percentage of interest and no payment on sinking fund, was not an equitable arrangement. In the past these funding loans had been issued on the principle that Brazil was not defaulting in the service of any of its loans, the funding loans being issued to cover in full the coupons which were not paid in cash. However, now that Brazil was actually defaulting on its issues through an arrangement to pay only reduced percentages of the coupons, there no longer seemed any valid reason for giving these funding loans more favorable treatment than would be given to other national loans. The effect, of course, of the Brazilian proposal

⁴⁸ See pp. 75 ff.

was to give the British, who hold the major part of these funding loans, much more favorable treatment than is given to American holders, whose bonds fall in the lower categories of the scheme. Mr. Kent seemed to acquiesce in this view.

It was also pointed out that if Mr. Kent's suggestion were followed to place the national loans of category 3 in category 1, providing 100% service, this would require so much exchange that nothing would be left for national, state and municipal loans in categories following class 3. Mr. Kent also agreed with this.

In further discussion we pointed out our belief that it was essential that Brazil consult with the bondholders before taking action which would affect their rights fundamentally. It was also stated that the Department felt that in view of the White House statement of October 20 regarding the early formation of a central bondholders group to deal with this whole question of debts of foreign countries owing to American citizens,⁴⁹ the best policy for this Government to pursue would be to urge on Brazil postponement of any action on the Brazilian plan until this bondholders committee could deal with the matter. We gave Mr. Kent for his confidential information a copy of our air-mail instruction of October 24 to Mr. Gibson,⁵⁰ with its enclosures.

We also referred to Mr. Gibson's views, as expressed in recent telegrams, that the authority wielded by Mr. Kent in controlling exchange in this country was so powerful that we could hope to obtain, through proper use of it, what we want in Brazil, not only in the matter of exchange, but also in the bond matter and other questions affecting American interests. The unwisdom of the recent French action was discussed. Reference also was made to Mr. Gibson's hope that no definite action might be taken by the signatories of the Exchange Agreement at their next meeting in November until he had an opportunity to express his views in the light of the general situation then existing in Brazil. Mr. Kent said that he was keeping Mr. Gibson fully informed of developments at this end, and would continue to do so.

EDWIN C. WILSON

832.51/794

The Secretary of State to the Brazilian Ambassador (Lima e Silva)

The Secretary of State presents his compliments to His Excellency the Ambassador of Brazil and refers to his note No. 85, dated September 5, 1933, transmitting a memorandum requesting the opening of a credit of \$50,000,000 in favor of the Banco do Brasil as an exchange fund for the purpose of paying for imported merchandise.

⁴⁹ See Department of State, *Press Releases*, October 21, 1933, p. 227.

⁵⁰ *Post*, p. 83.

The Secretary of State has consulted the competent offices of the Government of the United States as to the possibility, particularly from a legal standpoint, of a credit of the kind suggested and has been advised that no agency of the Government would have authority to make the desired advance. The competent authorities add that it would seem, therefore, that the procurement of a credit is a matter which the Banco do Brasil or the Brazilian Government should arrange privately, and not one in which this Government could properly be involved in any way.

WASHINGTON, November 10, 1933.

102.81 Rio de Janeiro/153 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 11, 1933—3 p. m.

[Received 3:35 p. m.]

121. From Commercial Attaché for Commerce. 12. Friday Bank of Brazil adopted policy supplying exchange to cover imports raw materials only. Continuation would affect major portion our export trade. Figueiredo states measure experimental obtain reaction, several times has urged us influence American exporters curtail sales here. Statistically exchange supply appears sufficient meet current import and Government requirements. Threat to American commerce justifies immediate vigorous representation.

GIBSON

832.5151/202 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, December 13, 1933—5 p. m.

106. Your 121, December 11, 3 p. m., from Commercial Attaché for Commerce. This Department would appreciate comment and recommendations from you.

PHILLIPS

832.5151/202 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, December 20, 1933—5 p. m.

110. 1. Reply is urgently desired to the Department's 106, December 13, 5 p. m.

2. Advise in particular, so that we hear by tomorrow forenoon if possible, whether it is true that exchange is to be supplied for raw material imports only and, if so, the effect on imports of wheat flour.

PHILLIPS

832.5151/260 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 21, 1933—noon.

[Received 12:15 p. m.]

124. Department's 110, December 20, 5 p. m.

1. Since November 30th limited exchange is being given to American importers requesting it. Highly preferential treatment is being given to importers of raw materials.

2. Local importers of American flour have not asked for exchange since restrictions went into effect.

3. The American firms which signed the blocked credits agreement are not getting full exchange for current importations as therein provided. The Embassy has received conflicting reports regarding the amount of exchange actually attempted.

4. Figueiredo has been profuse with statements and assurances which in practice have proved untrustworthy. His sudden changes of policy are prejudicial to legitimate American business.

5. Some relief for American importers might be secured through informal representations at the Foreign Office but I am inclined to doubt the lasting efficacy of this. More important results could doubtless be secured by action on the part of Kent; if this policy is adopted, it is of the utmost importance that Kent act in the most delicate possible manner.

GIBSON

832.5151/261 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 21, 1933—7 p. m.

[Received 8:28 p. m.]

126. My 124, December 21, noon. Representatives of Shell, Texas, and Atlantic Refining Companies called this afternoon to inform me they are not receiving exchange cover from Bank of Brazil. For instance, they have received only 4 days allowance in first 21 days this month. They have not asked help of Embassy as they are still negotiating with Ministry of Finance.

Figueiredo tells these and other applicants that he is unable to carry out his undertakings as he has no foreign exchange. There are various indications, however, that exchange does exist. It is difficult to secure reliable information on the subject here but there is some reason for feeling that the Government is accumulating exchange possibly in conjunction with the agreement as to French frozen

credits—now being negotiated—or even to have some ready cash on hand in the event of emergencies.

Last sentence telegram No. 124 was intended to point out desirability of avoiding heavy-handed action like that of French Government which has not proved successful. For the present at least it might be well to rely on such measures as withholding approval of exchange purchases which seem calculated to achieve desired results without arousing public resentment.

GIBSON

832.5151/262 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 27, 1933—4 p. m.

[Received December 27—3:20 p. m.]

129. My 126, December 21, 7 p. m. In connection with Figueiredo's statement that he has no foreign exchange it may be of interest that according to figures furnished me by our Consuls, consular invoices of shipments to the United States during first 22 days of December aggregate over six and three-quarters million dollars.

GIBSON

832.5151/263 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, December 31, 1933—4 p. m.

[Received December 31—3:20 p. m.]

131. My 126, December 21, 7 p. m. Figueiredo has presented his resignation. Department may consider it desirable to suggest Kent withhold action long enough to see whether developments render drastic measures superfluous.

GIBSON

EFFORTS TO SECURE EQUITABLE TREATMENT FOR AMERICAN CREDITORS IN THE SERVICING OF BRAZILIAN FEDERAL, STATE, AND MUNICIPAL DEBTS

832.51/792 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, September 16, 1933—5 p. m.

[Received 9:35 p. m.]

82. The Brazilian Government has for some time been formulating a plan as to payment of foreign debt obligations and has consulted

rather extensively with Sir Otto Niemeyer⁵¹ during his recent visit here. Fortunately through unofficial channels it was possible to convey to the Minister of Finance⁵² the unwisdom of taking any definite action in a matter of this character involving large American interests without frank consultation with us. Mr. Valentim Bouças, Secretary of the Commission on State and Municipal Finances, had been particularly active in pressing this point of view on the Minister of Finance and came to see me last evening to hand me in strict confidence a copy of the plan. He is also, with the authority of the Minister, sending a copy of the plan by air mail today to Fred Kent⁵³ who has obviously won the confidence of the Brazilians. In an accompanying letter he is asking Kent to give his views, objections and suggestions on the plan as it stands.

Mr. Bouças said that personally and confidentially he could assure me Niemeyer's suggestions as to preferential treatment for British interests could be considered as dead.

The plan which I have not yet had time to examine thoroughly begins with the statement:

[Here follows a summary of the plan, the complete text of which is printed on page 77.]

As there may be British pressure for early action, I have considered it advisable to telegraph this rather full summary. As British have capable and active banking representative here I shall value any guidance Department can give me and any suggestion Kent may feel disposed to offer.

GIBSON

832.51/799

The Ambassador in Brazil (Gibson) to the Secretary of State

No. 58

RIO DE JANEIRO, September 27, 1933.

[Received October 10 (?).]

SIR: Supplementing my telegram No. 82, dated September 16, 1933, 5 P. M., I now have the honor to furnish the Department the accompanying copies of the proposed plan for the adjustment of Brazilian national, state, and municipal debts to which it referred.

There also are enclosed two copies of a memorandum prepared by the Commercial Attaché,⁵⁴ in which he presents an analysis of the plan, pointing out certain features which would appear to be of concern to American holders of Brazilian bonds.

⁵¹ Of the Bank of England.

⁵² Oswaldo Aranha.

⁵³ Fred I. Kent, Supervisor of Exchange, Federal Reserve Bank of New York.

⁵⁴ Not printed.

In this connection, I may say that while the fact that a plan for the readjustment of the Brazilian foreign debts is under consideration is quite generally known, the subject has not been mentioned to me by any Brazilian official other than Sr. Bouças.

Respectfully yours,

HUGH GIBSON

[Enclosure]

Draft Plan for the Adjustment of National, State, and Municipal Debts

The following announcement is made by the Federal Government of Brazil:—

1—The Federal Government being gravely concerned at the non-payment of the foreign debt obligations of the States and Municipalities of Brazil has, after consultation with Sir Otto Niemeyer during his recent visit to Brazil, decided to put into operation a comprehensive plan for the payment of bondholders which will operate for a period terminating in October 1937.

2—The plan is designed to ensure that available foreign exchange shall be applied in equitable proportions to the service of all loans of the Federal Government and of the States and Municipalities of Brazil.

3—For the purpose of operating the plan the Federal Government has classified into seven grades all external loans of the Federal Government and of the States and municipalities as follows:

GRADE I. This grade will comprise the Funding loans of the Federal Government including the amounts funded and to be funded [under?] the 1931 Funding Plan. It will also include the repayment of arrears under the Hague Award,⁵⁵ which arrangement formed part of the 1931 Funding Plan. The Federal Government recognise the special character and importance of its Funding loans and foreign exchange for the full service of such loans will be provided.

GRADE II. Having regard to the special conditions attaching to the São Paulo Coffee Realisation Loan of 1930 sufficient exchange will be allocated to maintain payment of interest in full on this loan. From the date on which this plan comes into operation an amount representing 50% of the full contractual sinking fund will also be made available for the purchase of bonds in the market for cancellation so long as they are obtainable below par or for drawings at par if the bonds rise to that price.

⁵⁵ For text of judgment No. 15, July 12, 1929, in the case concerning the payment in gold of the Brazilian Federal loans issued in France, see The Hague, Permanent Court of International Justice, Series A, No. 21, 1928-1930, *Collection of Judgments*, p. 91.

GRADE[s] III AND IV. Grade III will consist of the following loans of the Federal Government:

U. S. of Brazil—5%	Loan 1903
do. —5%	Loan 1909 (Port of Pernambuco)
do. —8%	Loan 1921
do. —7%	Loan 1922
do. —6½%	Loan 1926
do. —6½%	Loan 1927

and the specially secured State of São Paulo Coffee Institute 7½% Loan. Grade IV will include the remaining loans of the Federal Government, the State of São Paulo External 8% Loan 1921 and the Bank of the State of São Paulo 6% Guaranteed Sterling Mortgage Loan.

Sufficient foreign exchange will be made available on or after 1st October 1933 for partial interest payment on the above-mentioned three São Paulo loans.

Interest in respect of all Federal Government loans included in these grades will continue to be payable until the end of September 1934 under the 1931 Funding Scheme; but from the close of this Scheme partial payments of interest will also be made on all such loans in accordance with the provisions of this plan, since the Federal Government is convinced that any further increase in the capital amount of the External Debt as the result of an extension of the Funding Scheme would be contrary to the interest of all parties.

No Sinking Fund payments will be transferred in respect of any of the loans in these grades.

The Brazilian Balance of Payments has now been relieved by the liquidation of certain external obligations and having regard to the terms of the 1931 Funding Scheme the Federal Government proposes to provide during the year 1933/4 an amount of not less than £1,200,000 to be applied to the redemption of 20-year Funding Bonds created under the Funding Plan of 1931. In consequence of the payment of this amount the milreis deposits in Special Account in respect of the service of the loans funded under the 1931 Funding Plan will be utilised by the Federal Government in the redemption of internal interest-bearing debt.

GRADES V–VI and VII—include all remaining external loans of the States and Municipalities. Sinking Funds in respect of these loans will not be transferred for the period of this plan but foreign exchange will be held available for partial interest payments on all such loans to commence on or after 1st. October 1933, except those under Grade VII for which no exchange will be available.

4—In the case of loans other than those of the Federal Government the liability will remain with the original debtor but foreign exchange

for the partial payments scheduled in this plan will be made available against payment by these debtors of milreis.

5—To the extent to which the full service (interest and sinking fund) of any loan is not transferred in foreign exchange under this plan milreis at fixed rates of 1 milreis=6 d., 1 milreis=12.166 cents, 1 milreis=3.105 franc, respectively, will be included in the respective budgets of the Federal Government, State or Municipality concerned and deposited in special accounts. Such milreis may be invested by the Federal Government, State or Municipality, as the case may be in existing internal obligations or as may be otherwise agreed.

6—Should it be possible during the period of the plan to set aside further foreign exchange, the Federal Government intends to apply such foreign exchange to the redemption by purchase below par of Bonds of the Federal Government or of the States and Municipalities then outstanding.

7—The plan will be reviewed not later than the Spring of 1937 when the Federal Government propose to reconsider in the light of the then circumstances the future service of all Brazilian external loans.

8—Whenever an interest payment whether partial or in full, is made under this plan, it will be made in respect of the coupon then due together with all overdue coupons (if any).

9—The classification of the loans into the various grades and percentage of service monies payable under the plan in respect of different grades are detailed in the following schedule.⁵⁶

832.51/792 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, September 28, 1933—3 p. m.

73. Your 82, September 16, 5 p. m. Unless you perceive some reason why it would be unwise to do so, please state to the appropriate authorities that it would appear highly desirable that before adopting any comprehensive payment plan which though temporary might tend to crystallize priorities as among different Brazilian obligations, full opportunity be afforded by the Brazilian Government for the expression of the opinions of all the different classes of bondholders whose interests might be affected by the plan. Furthermore any such plan should decidedly not discriminate against American interests.

The Department desires information regarding principles used in determining the grouping of the various loans in the classes given in your telegram and an indication of just what loans will fall in each of classes 5, 6 and 7.

⁵⁶ Not printed.

It is assumed that the Embassy has sent to the Department a copy of the full text of the plan by air mail.

HULL

832.51/798 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 5, 1933—4 p. m.

[Received October 5—3:55 p. m.]

88. Department's 73, September 28, badly garbled and still imperfectly deciphered.

As will be seen by reading my 82, September 16, the views which the Department now authorize me to express were in substance already expressed on my own initiative which resulted in plan being given us for our suggestions.

Full text was forwarded by air mail as soon as it could be copied. In my telegram September 16 I reported the Brazilians had that day forwarded a copy by air mail direct to Kent and assumed Department would secure advance copy from him.

As reported in above telegram this matter which involves between three and four hundred millions of American money is urgent. We cannot counteract pressure much longer with general observations. If we are to take advantage of present situation we must submit definite statement of our desiderata at an early date.

GIBSON

832.51/799½

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] October 9, 1933.

Reference is made to my memorandum of a telephone conversation with Mr. Kent on October 7⁵⁷ regarding the plan of the Brazilian Government for the payment of its foreign debt obligations. Mr. Kent telephoned this morning to say that in general he felt the plan was a sound one; Brazil did not have exchange enough to service all its foreign bonds, and it was therefore necessary to divide them into categories; this division was made so as to protect first the national credit, which seemed a sound principle.

Mr. Kent said that about a year ago the Brazilian Government had asked him to come down to Brazil to work out a scheme of reorganization of its foreign debt. It was not found possible for him to go to Brazil but he had conferred with Brazilian representatives in this

⁵⁷ Not printed.

country and suggested to them a method of dealing with the problem on the general principles which are now found in this present scheme.

Mr. Kent said he thought it was sound to protect the federal credit first, and to pay full interest and sinking fund on the scrip issued under the funding loans and also on the bonds affected by the Hague award. After provision for federal loans, the plan provides partial service on the state and then down to the municipal loans, figuring increasing amounts as the years go by on the theory that in the future there will be an increased amount of foreign exchange.

I asked Mr. Kent if he felt this plan was fair from the point of view of American holders. He said in general, yes, but that he did not have sufficient information as to the effect of the plan on the various issues of Brazilian bonds to determine whether there was any discrimination as respects certain issues against American holders. I asked whether he felt that this plan reflected Niemeyer's views. Mr. Kent said it probably did. He asked if we had any information in the way of an analysis of the effect of the plan on the individual. I said that we had so far not received the full text of the plan, and that our Economic Adviser's office had worked up a preliminary study of the matter⁵⁸ on the basis of such information as we had. Mr. Kent asked if I would send him a copy of this, and I said that I would, and also send him later a more detailed examination of the matter, which we would make after receiving the full text of the plan.

EDWIN C. WILSON

832.51/8001

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] October 11, 1933.

Mr. Kent telephoned from New York regarding the Brazilian proposal for servicing Brazil's foreign debts and read to me an extract from a letter he had written last week to the Brazilian Minister of Finance. In this letter Mr. Kent expressed the view that the American loans (federal) in group three really should be in group one, since these loans had been included in the 1931 funding plan. As group one provides for full service covering both interest and sinking fund, and group three provides for only partial service, he felt there was an element of discrimination against the American issues.

I asked Mr. Kent if he would send me a copy of that portion of his letter dealing with this matter and he said he would.⁵⁹

EDWIN C. WILSON

⁵⁸ Not printed.

⁵⁹ Letter not printed.

832.51/799 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, October 21, 1933—11 a. m.

84. Your despatch No. 58, September 27, 1933 and letter of October 5.⁶⁰ Department is sending you air mail instruction criticizing plan, emphasizing necessity of consultation with American bondholders, and stating that this Government cannot in the light of its present information regard the proposal as consistent with the statement of the Brazilian Government, issued by the Brazilian Delegation at Washington May 23, 1933, that "the Brazilian Government assures and will always assure all American interests completely fair treatment in connection with the service of loans and the disposition of exchange under the exchange control."⁶¹

Until this instruction is received, please take measures to insure that the Brazilian Government take no untimely action on the matter, in view of the very unfortunate effect which would attend publicity of the proposal both because of its substance and because of the announcement from the White House October 20 of steps taken to establish a central committee of representative outstanding personalities to deal with this whole matter of external debts owed to the people of this country.⁶²

HULL

832.51/801 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 23, 1933—5 p. m.

[Received 5:24 p. m.]

99. Department's 84, October 21, 11 a. m. Have conveyed Department's views to Minister for Foreign Affairs and Minister of Finance.

I find that latter has received a letter from Fred Kent in answer to him, reported in my telegram 82, September 16th. This letter gives some idea of the general advice and some specific criticism, chiefly to the effect that plan discriminates in favor of British. Minister of Finance professes to be impressed by Kent's criticism and has sent Bouças to inform Sir Henry Lynch (Rothschild representative) main features plan will be modified to meet this objection. Lynch exerting himself to persuade Brazilians that British banking interests through their past services are entitled to preferential treatment.

⁶⁰ Letter of October 5 not printed.

⁶¹ See memorandum of May 23 by the Chief of the Division of Latin American Affairs, p. 48.

⁶² See Department of State, *Press Releases*, October 21, 1933, p. 227.

In any event there would seem to be no intention of taking any steps pending consideration of your instructions and Kent's further communication.

GIBSON

832.51/799

The Secretary of State to the Ambassador in Brazil (Gibson)

No. 23

WASHINGTON, October 24, 1933.

SIR: The Department has carefully examined the plan of payment of foreign obligations transmitted with your despatch No. 58, dated September 27, 1933, recognizing its importance as regulating the payment of bonds of a par value of \$389,000,000, £158,000,000 and 777,000,000 French francs.

The plan may be characterized by comparing it with the recent German foreign debt payment regulations.⁶³ Germany, proclaiming insufficiency of foreign exchange to transfer full debt payments abroad, decreed that full interest and amortization should be transferred on the Dawes loan, full interest but no amortization should be paid on the Young loan (these two national Government loans being affected by special guarantees and international considerations), and that all other German bonds, national, state, municipal and corporate, payable in foreign currencies, should be paid in full in marks by the German debtor and an identic proportion on each should be transferred into the foreign currencies, the percentage being fixed from time to time in accordance with the available foreign exchange, while the bondholders were provided with negotiable scrip representing the part not transferred but deposited in the Reichsbank. The percentage to be transferred has been fixed for a six-months period only. The Brazilian plan provides for total payments in various currencies equivalent to £8,022,000 in 1934, £8,194,000 in 1935, £8,898,000 in 1936, and £9,900,000 in 1937, with the following grades and 1934 transfer allocations:

Grade 1—£4,445,000 is to pay full interest and amortization on three "funding" loans (in different currencies, outstanding in par value of \$30,000,000, £31,000,000 and 201,000,000 French francs);

Grade 2—£2,511,000 is to pay full interest and 50% of contractual amortization on the São Paulo coffee realization loan (outstanding in par value of \$28,000,000 and £10,250,000);

Grade 3—£244,000 is to pay 30% of the interest on a São Paulo sterling loan (outstanding in par value of £8,920,300);

Grade 4—£131,000 is to pay 25% of the interest on four São Paulo loans (outstanding in par value of \$4,568,000, £5,562,380 and 8,366,000 Dutch guilders);

⁶³ See vol. II, pp. 439 ff.

Grade 5—£438,000 is to pay 20% of the interest on 13 loans of the States of São Paulo, Minas Geraes and Rio Grande do Sul (outstanding in par value of \$90,888,500 and £11,298,858) ;

Grade 6—£253,000 is to pay 10% of the interest on 11 issues of other states and 19 municipal issues (outstanding in par value of \$89,126,300, £14,734,460 and 43,247,500 French francs) ;

Grade 7—No foreign exchange is to be provided for 17 other state issues and 8 municipal issues (outstanding in par value of \$1,980,000, £11,289,847 and 207,748,120 French francs) ;

After 1934 provision is made in Grades 3 and 4 for part payment of current interest on national Government bonds and the percentages of interest payable on Grades 3 to 6 increase annually; debtors will continue to include in their budgets the full service of loans, investing the part not transferred; *whenever possible during the four-year period the Federal Government will apply any foreign exchange available over the specified transfers to redeeming by purchase bonds of the Federal Government, of States or of Municipalities.* It is obvious that the Brazilian plan is characterized by a wide gradation of priorities accentuated by a declaration of intent to purchase throughout the four-year period the bonds of any grade in the open market for the purpose of cancelling debt.

The Brazilian delegation officially announced from the White House May 23, 1933, that the Brazilian Government will always assure all American interests completely fair treatment in connection with the service of loans and the disposition of exchange under the exchange control and will in no way discriminate between different nations. The proposed announcement of the Government of Brazil establishing the above schedules of payment refers briefly to consultation with Sir Otto Niemeyer, to an intent that "available foreign exchange shall be applied in equitable proportions to the service of all loans", to "the special character and importance" of the Brazilian funding loans (Grade 1), and to "the special conditions attaching to the São Paulo coffee realization loan" (Grade 2). These phrases appear to be the only arguments offered to sustain a proposal to allocate exchange among 98 issues of securities in proportions assuring that from seven-eighths in 1934 to one-half in 1937 of the total allocated shall be distributed in paying full interest and rapid amortization on four loans (3 national and one State) while the best secured other loans of the National Government are allotted only 35% to 50% of current interest service and municipal bonds guaranteed by a strong State are to receive payment of only 10% to 15% of their coupons. As British ownership of the issues allocated to Grades 1 and 2 appears to be some four or five times the American ownership, it is difficult to believe that a scheme involving these huge disproportions can be

justified as equitable and fair treatment of American bondholders, irrespective of anomalies and discrepancies within Grades 3 to 6.

The Governments represented at the Monetary and Economic Conference adopted in July a resolution regarding the service of external debts⁶⁴ which recognized that conditions in debtor countries vary considerably and that it is not possible to lay down a uniform treatment applicable to all cases but stated that when arrangements are recognized to be necessary "they should . . . be made directly between debtors and creditors and be based on the debtor's ability to pay". It seems clear that a plan regulating payments for four years on indebtedness of over a billion dollars should not be promulgated without full consultation with the creditors affected. It is understood that this proposal has been under consideration by the Brazilian Government since May 26, 1933, at least and that during that time there has been no discussion at all with American bondholders. It is not known that the Brazilian authorities have ever made any reply to the memorandum of the American Committee on Brazilian State and Municipal loans, delivered to Mr. Bouças under date of May 17, 1933,⁶⁵ and published June 3, 1933, in which the latter Committee requested that the Brazilian Government make available the necessary data to provide a basis for considering the debt problem, that a certain percentage of interest service on all bonds be transferred, and that the investment of the part paid in milreis but not transferred be left to the discretion of the individual bondholders.

It does not appear that there are urgent reasons compelling an immediate decision by the Brazilian Government to release States and Municipalities from the obligation to make effective provision for more than 20% or 10% of interest payments on their foreign bonds and to authorize them to use for their own purposes the arrears already deposited in Brazilian banks—these appear to be the immediate effects which the proposed plan would produce, the only other new element until September 30, 1934, being the promise of the Brazilian Government to make exchange available on the transferable 20% or 10% of State and Municipal bond interest. Unilateral action in this regard proposed as a general plan regulating payments over a period of four years would appear to be in disregard of the principles declared by the London Conference. The Government of the United States in the light of its present information cannot regard the proposal as consistent with the assurances made public May 15 [23] by the Brazilian delegation at Washington.

The long-established policy of the United States Government in

⁶⁴ League of Nations, *Journal of the Monetary and Economic Conference*, p. 207.

⁶⁵ For text, see Bulletin No. 63 of the Institute of International Finance, conducted by the Investment Bankers Association of America, June 3, 1933, pp. 3-7.

matters of contractual debt has been one of non-interference in transactions between private citizens and foreign Governments. This principle is recognized in the declaration of the London Conference that cases of default should be settled directly between debtors and creditors, and in the recommendation of the Conference that Governments of creditor countries should encourage the creation of organizations in a position to represent the several classes of creditors in respect of foreign loans. In the spirit of this recommendation, this Government, as set forth in the enclosed statement⁶⁶ issued at the White House on October 20, 1933, is moving to assure the establishment of an adequate and disinterested organization for the protection of American holders of foreign securities which shall have no connection with the investment banking houses which originally issued the loan but which shall directly represent the many thousands of actual holders of bonds.

While unwilling to undertake the direct settlement of private debt situations, this Government cannot view with complacency unfair discrimination against American investors as compared with the investors of other countries. Such discrimination is quickly noticed or suspected and creates a rankling sense of injustice among those affected which, particularly when large numbers of investors are concerned, may cause lasting prejudice to cooperative relations both with the debtor country and with the country whose bankers have sought and obtained unduly favorable treatment. In the circumstance of the indicated readiness of the Brazilian Government to consider a comprehensive though temporary plan of payment of all the funded foreign obligations of Brazilian Governmental entities, this Government perceives an early opportunity for putting into effect the pertinent recommendations of the London Conference favoring the negotiation with representative creditor organizations of settlements based on the capacity of payment of the respective debtors. It trusts that no action prejudicial to such a settlement will be taken in the meantime.

You may bring the foregoing position of this Government to the attention of the Brazilian Government in such manner as you deem advisable, adding orally in any case that in formulating its opinions this Government has not desired to invoke the fact of the strong unfavorable balance of trade of the United States with Brazil as an argument, although it is strongly present in the minds of American investors and would heighten the feeling which would be excited by any apparent favoring of other creditors over American creditors. The Government hopes it will not be compelled by developments to

⁶⁶ Enclosure not printed.

have recourse to the growing practice of bilateral compensation agreements.

There are enclosed for your information memoranda prepared in the Office of the Economic Adviser during study of this matter.⁶⁷

Very truly yours,

For the Secretary of State:

JEFFERSON CAFFERY

832.51/802 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 25, 1933—6 p. m.

[Received October 26—12:40 a. m.]

105. Lunched today with Minister of Finance at his invitation. He went into considerable detail as to the history of present project for meeting foreign obligations saying that he considered it essential that Brazil should begin to pay something, that he had worked out what he conceived to be a fair plan, adding that the only consultation and guidance he had were from Sir Otto Niemeyer but that he would have welcomed similar American guidance had it been offered. He said that he had not intended to negotiate with any government on this subject and that for that reason he had sought Fred Kent's advice as doubtless representing our views but without making it necessary to go into detailed discussion with other governments. He then said that the matter was rather urgent as, for internal political reasons, he was anxious to make public announcement of some plan before the meeting of the Constituent Assembly November 15th. I therefore trust that we can bring forward all our views as expeditiously as possible in order that no more unnecessary time may be lost.

Aranha said that he was honestly desirous of meeting any reasonable views on our part, that this statement could be taken at par because it was based on his conviction that real Brazilian prosperity was dependent on developing the best possible relations with the United States, and he went so far as to say if it proved to be necessary he was prepared to negotiate a separate and special agreement with us on the question of foreign obligations.

The press here has carried no adequate description of the committee on foreign debts referred to in the Department's 84.⁶⁸ I was therefore obliged to improvise a description of it which he professed to consider showed the desirability of letting it pass on the subject.

In the course of the conversation he repeatedly referred to Kent and the confidence felt in him by the Government and by the mem-

⁶⁷ None printed.

⁶⁸ October 21, 11 a. m., p. 82.

bers of the Commission to Washington and London and inquired in guarded terms whether I thought it would be possible for Kent to come down here and talk things over with a view to some expeditious settlement. I told him that I had no idea as to whether Kent's duties would permit him to absent himself from the United States at this time or whether he felt that this was a matter with which he could deal. Personally, if the Department feels warranted in suggesting the journey to Kent, I am convinced that with his broad financial knowledge we could work together for a comprehensive and more satisfactory agreement, not only on foreign obligations, but also exchange restrictions (which now seem to be reaching a critical stage and might serve as the basis for his coming), trade restrictions and other matters in which we are interested. I should be glad to have the Department's views on this last point for my guidance in further conversations with Aranha whom I am to see as soon as the Department's promised mail instructions are received.

GIBSON

832.51/804 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 28, 1933—5 p. m.

[Received 6:40 p. m.]

107. Minister of Finance yesterday granted an interview to the press, in which he stated that he hoped shortly to make an important announcement in regard to Brazil's foreign indebtedness; that he had progressed far in the elaboration of a plan and was awaiting only the acquiescence of one group of bankers. On inquiry as to the subjects of this statement after my recent talk with the Finance Minister, I am informed that Aranha has received a message from Dillon, Reed who claim to speak for American banking interests, stating that after consultation with Rothschilds they approve of Aranha's plan in present form. Nevertheless Finance Minister's statement appears to go farther than was warranted by any message from Dillon, Reed. Department may wish to inquire basis of Dillon, Reed's activities in this matter.

Air mail instruction referred to in Department's 84⁶⁹ not yet received and in view of the urgency of the situation it may be considered desirable to give me substance of these instructions by telegraph. I think I have done everything possible at this end to safeguard our position. I have talked with the Finance Minister, to Bouças, his right-hand man, and to the Minister for Foreign Affairs; and have

⁶⁹ October 21, 11 a. m., p. 82.

made our position a matter of record by sending the latter an informal memorandum of what I said to him in conversation embodying substance of Department's 84. However, in view of the highly personal Brazilian method of handling public matters, there is always a possibility of their feeling that my zeal outruns that of my Government and for that reason I think it would be prudent for the Department to have a serious talk with the Brazilian Ambassador outlining our views to him clearly and impress on him that this is done in order that he may in turn impress upon his Government the serious view we take of the situation and the necessity for withholding action until an opportunity is afforded for full discussion. From conversation here, I gather that he does not habitually report fully or clearly and it would be desirable to induce him to send in a report which confirms the substance of what I have already said.

GIBSON

832.51/799 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, October 30, 1933—4 p. m.

91. A United Press dispatch in *Wall Street Journal* reports that Brazilian Finance Minister stated Brazil will accept Niemeyer's recommendation and establish a central bank, adding: The Government soon would make an important declaration regarding the foreign debt service; representatives of bondholders already had accepted in principle a Government plan by which Brazil soon would pay what it was actually able to on the services of State and Municipal debts; at present the Government awaited final consent of bankers. The article adds: "He did not say whether the proposal he mentioned was the nationalization of debts, mentioned recently, whereby dollar and sterling obligations would be paid in milreis".

Department does not understand statement that representatives of bondholders had accepted Government plan in principle. Kent has absolutely no capacity to represent bondholders. The American Committee on Brazilian State and Municipal Loans (for which see Embassy files) on May 17 rejected Bouças' proposal for milreis payment, suggested temporary basis for treatment of these loans and asked further discussion. By May 26 Brazilian Government was apparently discussing with Niemeyer its present proposal for ten to fifteen percent payment of service on State and Municipal bonds of which Americans hold some \$160,000,000, extremely low interest payments continuing for four years with Brazil making exchange available to buy in these depreciated bonds in the open market. In the

meantime Brazil has announced continuance of 1931 scrip plan for national government bonds until September 30, 1934, and proposed plan would announce 100% service on this scrip and 100% interest service on coffee realization loan.

Representatives of American holders of State and Municipal bonds have been trying since 1931 to avert the making of some unfair Brazilian plan of payment under British banking influences. An ugly situation would be created should Brazil announce a discriminatory payment plan without consulting American interests.

Department trusts the Brazilian Government will take seriously the communication made pursuant to Department's telegram 84, October 21, 1933, and the formal statement of this Government's position which you will make on receipt of air mail instruction of October 24.

HULL

832.51/802 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, October 30, 1933—5 p. m.

92. Your 105, October 25, 6 p. m. Department does not understand Minister's reference to lack of offer of American guidance. A bulletin of the "Institute of International Finance," published June 3, 1933, under the auspices of the Investment Bankers Association of America printed text of a memorandum delivered May 17 to Mr. Bouças by the American Committee on Brazilian State and Municipal loans suggesting possible bases for treatment of these loans and asking further discussion. Department understands that the first year of the Niemeyer plan would alter treatment only of State and Municipal bonds, contemplating transfer of 10 or 15 percent of their current interest and additional (unlimited) transfer to redeem them by purchase in the open market, while interest on national bonds would continue to be paid in scrip under 1931 funding plan until September 30, 1934.

Department's position as fully stated in air mail instruction of October 24 should be communicated formally to Brazilian Government in view of its apparent misunderstanding of position.

Department perceives certain objections to the proposed omnibus mission by Kent. The problem of foreign obligations is to be referred to bondholders organization. Trade conversations are pending at Washington. Department has avoided implication in questions of unfreezing exchange. Department appreciates your suggestion and may develop alternative procedure.

HULL

832.51/804 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, October 31, 1933—5 p. m.

93. Your 107, October 28, 5 p. m. When the Brazilian Ambassador came to the Department with his experts on October 30 to begin the detailed treaty discussions,⁷⁰ we impressed on him the serious view we hold of the present Brazilian plan for dealing with its foreign debt service and the necessity of his Government's taking no action in the matter until it has had an opportunity to consider our views set out in the air mail instruction to you of October 24. He said that he would cable this to his Government at once.

We doubt the advisability of sounding out Dillon, Reed in this matter.

HULL

832.51/809 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, November 8, 1933—9 p. m.

[Received 11:45 p. m.]

109. Substance Department's instruction 23, October 24, formally presented to Foreign Office November 4th, copy immediately forwarded by Foreign Office to Finance Minister.

Finance Minister dined at the Embassy last night and told me that he had examined our criticisms of his plan and felt that he would be able to "refute them to our satisfaction" within a day or two.

I said the essential thing was not the detailed criticisms which were presented, chiefly to bear out the necessity for further consultation, but the definite request for the protection of American bondholders should be heard and have its views taken into consideration. The Minister said this was out of the question as he must, in order to anticipate a move for repudiation, put a plan into effect before the meeting of the Constituent Assembly. I suggested he would be adequately covered if he informed the Constituent Assembly of the Government's determination to resume payments, adding that the details of the plan were under discussion with the interested parties.

Today the Minister sent Bouças to see me with two memoranda⁷¹ . . . taking exception to various points in the Department's analysis

⁷⁰ For correspondence regarding treaty discussions, see pp. 13 ff.

⁷¹ Not printed. The memorandum transmitted with the note of November 29, 1933, from the Secretary General of the Brazilian Foreign Office, is a word-for-word transcription of these two memoranda; for text, see p. 98.

of the plan. The Minister had sent Bouças to ask me for "the definite proposals of the American Government". I told him we had just one definite proposal clearly embodied in my note which was that no plan should be put into effect without consultation with the Bondholders' Commission. Bouças in evident distress said he agreed but feared the Minister had gone so far that it was difficult to turn him back but that anyway he would do his best to persuade him. He was not sanguine of success.

In view of the foregoing I went to see the Foreign Minister this evening and went over the whole matter with him, saying that so far as I could see immediate action was entirely unnecessary as the plan need not be put into effect until October 1934. The Foreign Minister said he could hardly credit the statement that the Finance Minister must act before the meeting of the Constituent Assembly as that body, under its terms of reference, has no jurisdiction in this matter. He added that after the President had set up a disinterested commission and the American Government had asked that this be consulted he did not feel that it was possible for Brazil to refuse.

I gave him verbally the penultimate paragraph of the Department's instruction. He said that he would immediately get in touch with Finance Minister and would do his best to prevent any precipitate action.

The Minister inquired how much time I thought would be necessary for the Commission to deal with this question. If the Department can give me any guidance on this point it might strengthen Foreign Minister's hand in discussion. I should also appreciate any indication as to how it is contemplated that the Brazilian Government and the Commission be brought into communication.

GIBSON

832.51/810 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, November 9, 1933—noon.

[Received November 9—10:55 a. m.]

110. I have been unable to elicit any indication that the Brazilian Ambassador has reported conversation referred to in Department's 93. In view of situation reported in my 109 Department may desire to impress upon him desirability of informing his Government of Department's view of situation and obtaining assurance the [*that?*] full opportunity will be afforded for Bondholders' Commission to confer.

GIBSON

832.51/812 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, November 9, 1933—11 p. m.
[Received November 10—12: 13 a. m.]

111. My 109, November 8, 9 p. m. Minister for Foreign Affairs has just telephoned me that he has reached agreement with Minister of Finance and that they request the Department to furnish copy of the plan to Bondholders' Commission. He expresses the hope that it can be dealt with expeditiously. Foreign Minister asks me to say that Brazilian Government is determined to work in good understanding with the United States.

This would seem to dispose of the danger of action in the course of the next few days—but it must be borne in mind that we are not dealing in this matter with a highly organized Treasury Department . . . It is therefore important to get active negotiation started in some form as soon as possible. It would be helpful if Department would furnish me with an indication of the procedure contemplated.

GIBSON

832.51/810 : Telegram

The Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, November 10, 1933—noon.

94. Your 110, November 9, noon. We handed the Brazilian Ambassador today an informal memorandum expressing our views as to the necessity of consultation between the bondholders organization and the Brazilian Government.⁷² The Ambassador said he would cable his Government.

HULL

832.51/812 : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, November 11, 1933—1 p. m.

95. Your 109, November 8, 9 p. m., and 111, November 9, 11 p. m. In accordance with the request of the Brazilian Government we have transmitted copy of the Brazilian plan to the organization group for the Bondholders' Commission. The group has this matter under consideration and is getting in touch with the interested parties. You will of course appreciate that this organization group has just begun to undertake its task and thus far the Commission has not been legally

⁷² Not found in Department files.

organized and incorporated. It is necessary to give it reasonable time to get its general scheme of operation worked out so that it can apply itself to the Brazilian situation, which, however, is likely to be its first major consideration. We hope to have some further news early next week.

PHILLIPS

832.51/812 Supp. : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, November 16, 1933—6 p. m.

97. Department's 95, November 11, 1 p. m. We understand the organizing group of the Bondholders Committee has been meeting with representatives of various issue houses concerned in Brazilian securities, and expects shortly to decide on what action they may take. We will inform you as soon as a decision has been reached.

PHILLIPS

832.51/817a : Telegram

The Acting Secretary of State to the Ambassador in Brazil (Gibson)

WASHINGTON, November 17, 1933—5 p. m.

98. *New York Times* publishes cable from Rio de Janeiro dated November 16 that Finance Minister "in a departmental report today" proposes a scheme for servicing Brazil's foreign debts. Is this a new move on the part of the Finance Minister?

PHILLIPS

832.51/818 : Telegram

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

RIO DE JANEIRO, November 18, 1933—noon.

[Received 1:30 p. m.]

115. Department's 98, November 17, 5 p. m. The Finance Minister's departmental report to the President for the information of the Constituent Assembly did not refer to a new plan, but to the plan transmitted with my despatch 58, September 27, 1933. This is mentioned briefly together with a summary of the seven subdivisions into which it divides the foreign debt.

GIBSON

800.51/891 : Telegram

The Acting Secretary of State to the American Delegation to the Seventh International Conference of American States

WASHINGTON, November 28, 1933—5 p. m.

23. For the Secretary of State. Your 15, November 27.⁷³ The Executive Committee of the Bondholders' Association has been meeting very frequently in New York. They are ready to incorporate and begin work generally when and as they solve the question of financing themselves. This has turned out to be a very great anxiety. A second refusal by Rockefeller Foundation was unexpected. A tentative plan under which banking institutions would be assessed, to be worked out with the help of the New York Federal Reserve System, is now under consideration and there is hope that it may be put through before the end of the week.

As you know, the group has even now on its own responsibility become active in regard to the Brazilian debt situation.

Stevens⁷⁴ has been offered and accepted permanent chairmanship. If this question of finance cannot ultimately be solved I suppose consideration will be renewed of Title II of the Securities Act⁷⁵ because default situations are tending to extend and intensify themselves.

PHILLIPS

832.51/843

The Ambassador in Brazil (Gibson) to the Acting Secretary of State

No. 118

RIO DE JANEIRO, December 11, 1933.

[Received December 28.]

SIR: I have the honor to enclose herewith a copy and translation of a note dated November 29, 1933, which the Embassy has received from the Brazilian Foreign Office with respect to the Brazilian plan for the partial resumption of the services upon its foreign debts. The note was not received by the Embassy until the evening of December 8th.

The Department will observe that in paragraph eight the Brazilian Government fully accepts the request made by the American Government that the bondholders' committee be permitted to submit observations regarding the plan, but reserves the right in paragraph three to take such a decision as appears best to harmonize the divergent interests. . . .

⁷³ Not printed.

⁷⁴ Raymond B. Stevens, Chairman, Executive Committee, Foreign Bondholders' Protective Council.

⁷⁵ 48 Stat. 92.

A copy of this despatch is being forwarded to Mr. J. Reuben Clark, Junior,⁷⁶ in Montevideo.

Respectfully yours,

For the Ambassador:
JOHN M. CABOT
Third Secretary of Embassy

[Enclosure—Translation “]

*The Secretary General of the Brazilian Foreign Office (Cavalcanti)
to the American Ambassador (Gibson)*

EC/67/8 (42).(22) 23.

RIO DE JANEIRO, November 29, 1933.

MR. AMBASSADOR: I have the honor to acknowledge the receipt of the note of the 4th of this month⁷⁸ with which Your Excellency enclosed a memorandum with the comments of the North American Government regarding the projected plan for the liquidation of the external debts of Brazil, Federal as well as State and Municipal.

2. Having examined the plan with which my colleague of the Finance Department acquainted you, the North American Government expressed the opinion that, as it has been presented, it is not consonant with the official declaration made in Washington by the Brazilian delegation on May 23rd to the effect that the Brazilian Government would make no discriminations between nations, not only with respect to the payment of loans, but also with respect to the distribution of exchange; and ended by requesting the Brazilian Government not to put the plan into execution before the representatives of the North American bondholders might be heard, in conformity with the recommendations of the Economic Conference of London for the liquidation of debts through understandings between the debtors and representative organizations of the creditors upon the basis of the capacity of the debtors to pay. In this matter the North American Government states that it has just promoted the formation of a central committee for the protection of the interests of North American holders of foreign securities, adding that the examination of the Brazilian plan affords an opportunity for the United States to put into effect the recommendations of the London Conference.

3. In reply, I wish to inform Your Excellency that, in giving previous information of the plan to the North American Government,

⁷⁶ Member of the American Delegation to the Seventh International Conference of American States. On November 22, 1933, Mr. Stevens cabled Mr. Clark, one of the organizing members of the Foreign Bondholders' Protective Council, to "stop over at Rio de Janeiro and discuss with the American Ambassador and the Finance Minister the proposed external debt plan". (832.51/830)

⁷⁷ File translation revised.

⁷⁸ See telegram No. 109, November 8, 9 p. m., from the Ambassador in Brazil, p. 91.

the Ministry of Finance of Brazil had precisely in view the hearing of the suggestions of the creditors of Brazil in accordance with the recommendations of the London Conference, reserving the right, however, after hearing the interested parties, to take such decision as appears best to harmonize the suggestions, in order to guarantee perfect equality of treatment without any discrimination between nations.

4. It is the firm conviction of the Brazilian Government that the plan with which the North American Government was acquainted meets completely that desire for equitable treatment of the creditors of the different nations, and therefore does not contravene the declaration made in Washington by the Brazilian delegation which refers expressly to discrimination "between different nations," inasmuch as it could not be imagined that all credits should be treated in the same degree of guaranty, independent of their nature. In the annexed memorandum in which the Ministry of Finance examines the objections presented by the North American Government, Your Excellency will find, in detail, the technical and other reasons which induced the Brazilian Government to establish the classification of the seven grades which constitute the basis of the plan, with the respective proportions of exchange to be furnished for the payment of interest and amortization.

5. From this, Your Excellency will find that, having stated the thesis, which appeared the most equitable, that the amount of exchange to be distributed should above all be proportional to the amount of capital employed in Brazil in each one of three currencies—to wit: about 58% in Pounds Sterling, 31% in United States Dollars, and 11% in French Francs, which is more or less proportional to the £158,000,000, U. S. \$389,000,000, and Frs. 777,000,000, in which the total of the foreign debt of Brazil is expressed—the Brazilian Government should, also, take into account, for the classification of the grades, the relative guarantee given for each loan when making the contract, the circumstance of the previous funding, the solvency of the debtors, the difference of the contractual interest rate, and the actual value of the respective securities on the market.

6. If all these points are taken into consideration, it is easy to verify that the treatment proposed is even more favorable to the holders of securities in dollars and francs, it being appropriate, however, to observe that although these loans are expressed in determined currencies, this fact does not necessarily signify that the holders are nationals of the respective countries—which is more particularly true with respect to loans in sterling currency.

7. Before ending these observations of a general character, I wish also to mention that, in including in this general plan of the Federal

Government the debts of the States, the Brazilian Government had especially in view the protection of the interests of the North American holders of such securities, and that in a general way the plan corresponds to the intense desire of the Brazilian Government to recommence the liquidation of its international obligations, giving to them the maximum of guarantees which the insufficiency of available exchange permits.

8. In requesting that you be good enough to transmit to the North American Government the memorandum of the Ministry of Finance, with the considerations of which this note is concerned, I wish to assure Your Excellency that the Brazilian Government will receive with the greatest consideration the observations or suggestions which the North American Government, through itself or through the organization which it judges appropriate, may wish to submit in behalf of the North American holders, and expresses in advance its thanks for its collaboration.

I avail myself [etc.]

CAVALCANTI DE LACERDA

[Subenclosure—Memorandum ¹⁹]

The American Memorandum compares the Brazilian scheme to the recent German foreign debt payment regulations.

The comparison shows a certain analogy, but there are fundamental Brazilian reasons which prevent the two plans being considered from the same angle.

The German regulations are, presumably, still in their first six months of existence, and consequently the plan which the Brazilian Federal Government formulated was not in any way adopted from the Germans but brought into being exclusively through conditions peculiar to the Brazilian foreign debt service.

In the first place the cause, viz. "insufficiency of foreign exchange to transfer full debt payments abroad", pertains to both.

The classification of different loans in Grades has also been very similarly dealt with, viz:

Full interest and amortization,

Full interest and no amortization, or only in part,

A proportion of interest only and, in some cases of Brazilian loans, no transference at all.

The reason for the priority of Grade I, in the German regulations, "national loans affected by special guarantees and international considerations", would seem to hold good for the Brazilian scheme.

¹⁹ Filed separately under 832.51/874.

The loans coming under Grade I of the Brazilian scheme are the three Funding Loans and the indebtedness to the French, known as the "Hague Arrears".

The Funding Loans have "special character and importance" inasmuch as they represent the interest paid in scrip on three occasions when the economic conditions of Brazil and/or world conditions prevented the transference of Brazilian currency into foreign exchange.

The bondholders of the funded loans on all three occasions have helped towards the recovery of Brazil by postponing for a very long period the payment of unremitted interest, and thereby increasing the amount of available exchange on each occasion, for other international purposes.

In addition the sinking funds on the loans funded on these three occasions were, in each case, suspended for a considerable period and loans which would otherwise have been, in a great measure if not entirely, redeemed, are brought in under Grades III and IV, for which there is only exchange allotted to pay 30% and 25% of the interest and no sinking fund.

The above can be justly claimed an international consideration as distinct from their special guarantees, which afford them in the case of the 1898 and 1914 loans, a first charge on the Custom House receipts with the specially introduced payment of one part of the duties in gold, the cover for which was a first charge on the bills of exchange sold by exporters in Brazil.

The 1931 Funding bonds have a priority for exchange over all other Brazilian Federal loans.

As regards the Hague Arrears, which are also included in Grade I, as they represent payments ordained by an International Court of Arbitration, their international character needs no further support notwithstanding the fact that they have no material special guarantees.

As regards Grade II, it can be very clearly stated that the São Paulo Coffee Realization Loan of 1930, the only one therein, has very special conditions attaching to its issue.

The loan apart from the hypothecation of a tax specially created was also secured by the specific guarantee of "pledged coffee", that is to say, particular grade coffee "the proper documents of title to which shall be deposited with the representatives in the State of São Paulo of the bankers, with an undertaking that a minimum quantity of this 'pledged coffee' shall be sold monthly and that a contractual minimum shall, in all circumstances, be available in every month in Santos for sale"—which is tantamount to a call on the foreign exchange produced by the first coffee sold in Santos each month.

The remaining Brazilian loans, whether Federal, State or Municipal, have been considered under the scheme solely on their respective merits, and so classified having regard to the special nature of their individual guarantees, namely,

relative security,
previous funding,
debtors' solvency or capacity to pay,
differing rates of contractual interest,
and actual market values.

It is, therefore, particularly interesting to note that an analysis of the distribution of exchange under the Brazilian scheme shows a certain rough equality of transfer, as the scheme shows:

- A) That about 58% of the whole of Brazil's external debt is expressed
 in sterling,
 31% in Dollars, U. S. Currency, and
 11% in French francs.
- B) That the average yield under the plan is:
 2.36% on all pound sterling issues,
 2.29% on all dollar issues, and
 1.20% on all franc issues, but if franc issues were
 treated as paper franc loans throughout, as in the
 case of sterling and dollar loans, the average
 yield on franc loans would be over
 2.40%.

It should also be noted that although all the loans are expressed in the currency of their country of origin, it does not necessarily mean that they are now held by nationals of that country. Indeed, several of the loans expressed in sterling were partly issued on the Continent of Europe in Holland, Switzerland, Italy and Sweden.

The declaration of the Brazilian Delegation from the White House on May 23, 1933, that "the Brazilian Government will always assure all American interests completely fair treatment in connection with the service of loans and the disposition of exchange under the exchange control and will, in no way, discriminate between different nations", would seem to have been very fully contemplated, and care taken to secure equitable and fair treatment for American and all other bondholders, in the preparation of the scheme.

From the foregoing explanation of the scheme, it certainly cannot be stated with justice that what the American Memorandum describes as "high disproportions" is, in the true sense of the expression, correct.

The analysis of the figures shows an extraordinarily close relation in the percentages applicable to each country of origin, and dealing with a subject, the principal matter of which is "the service of Brazil's foreign debt", the factor "Capital invested in Brazil" must be the

all-determining point as to what is equitable or not, and an all-round average yield should assuredly be the basis on which to judge equity and fairness, and not the quantum of exchange allotted to each country of origin without regard to the greatly disproportionate volume of capital invested in Brazil by each respective country.

There are other points of resemblance between the German regulations and the Brazilian Government Scheme, and a very important one is with reference to the least favored German loans for which only a proportion of the service monies are being transferred.

The regulations provide that this proportion shall be "an identic one" in each case which indicates the relation of the transference to the capital amount involved, for example a loan of 10,000,000 marks on the supposition that the transference was 25%, would obtain remittances for 2,500,000 marks, while a loan of 100,000,000 would receive 25,000,000 marks. The first might have been all subscribed by nationals of country A, and the second by that of B, with a result that B received ten times more transference than A, but they would each receive 25%.

In the Brazilian scheme, while it is not practicable to bring in all lower grade loans on a single basis, the scheme has been carefully studied, and the result gives each "foreign currency group" as near as possible the same percentage which the transference bears to each whole group of loans in one currency, as illustrated in the above examination of the American Memorandum.

As regards providing the bondholders with negotiable scrip representing the part of national currency not transferred, this is a provision that would not suit Brazilian conditions and, among other reasons, because the exchange control here is more difficult and the currency corresponding to this scrip would undoubtedly soon come into the "black" market and swell the amount of required and unremitted foreign exchange, thus defeating the object the Brazilian Government has in view of securing an equitable distribution of foreign exchange for all international requirements.

As it is obvious that in the case of Brazil it is impracticable to be revising the situation at such short intervals as 6 months, the scheme, as the Memorandum rightly states, provides for an automatic annual increase of transfer for all the grades which only receive a partial transference of service money. The provision that any increase in the available foreign exchange shall be used for the purchase of bonds in the open market for cancellation is justifiable by providing a means of recommencing the sinking fund which so materially adds to enhancing the market quotations and thereby benefitting the capital value of all holders. In addition the surplus exchange so used in bondholders' benefit, secures the further advantage of maintaining a uni-

form treatment for interest over a short term of years, and does not subject bondholders to the uncertainty as to whether interest will be increased or not during the stated period.

The view that one other nation has some 4 or 5 times the American ownership in grades 1 and 2, cannot be considered fair criticism. Fair and equitable treatment is shown in the fact that while considering the respective merits of each individual loan the scheme has resulted, as previously mentioned, in an almost identical return of interest to each "individual currency group", and it should not be overlooked that in group VII, for which no foreign exchange is available, one country alone has over 10 times the American ownership in that grade.

CHILE

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO CHILEAN EXCHANGE RESTRICTIONS

825.5151/81

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1366

SANTIAGO, January 25, 1933.

[Received February 2.]

SIR: I have the honor to refer to this Embassy's despatch No. 1288 of October 26, 1932¹ reporting conversations which we had at that time concerning various issues affecting American interests arising through exchange control regulations and enclosing a copy of a memorandum dated October 24, 1932, which was left with the Foreign Office and which set forth our position on these problems.

Under the new Government far from being settled many of the old difficulties have been aggravated or raised in a new form and the vigorous nationalistic policy which the Alessandri Government has pursued since its inauguration² has brought new and perhaps even more serious threats against our interests. In addition to the problems arising through exchange control difficulties with which we have been grappling for months two important new issues have developed since the inauguration of Alessandri. These are the attitude which has been adopted toward the nitrate situation³ and the apparent intention of the Government to effect the cancelation of the gold surcharge clause of the concession-contract of the electric company through ministerial decree. . . . I felt the problem should be approached first by a direct conversation with the Executive followed by subsequent contacts with other appropriate branches of the Government. My interview with the President is reported in my despatch No. 1365 of January 25, 1933.⁴ As experience has shown that the numerous complicated issues arising from exchange control regulations can be most effectively dealt with by leaving a memorandum with the Foreign Office prior to discussions or elaborations of the

¹ Not printed.

² For correspondence regarding the revolutions in Chile in 1932, see *Foreign Relations*, 1932, vol. v, pp. 430 ff.

³ For correspondence regarding the nitrate situation, see pp. 154 ff.

⁴ Not printed; but see telegram No. 19, January 31, 7 p. m., p. 159.

points at issue, such a memorandum (copy enclosed) was prepared and handed by me to Señor Cruchaga, the Minister of Foreign Affairs, on January 24. The Minister did not enter into a discussion of the memorandum but promised that the points would be thoroughly gone into. He did make the suggestion, however, that I discuss these questions with Señor Ross, the Minister of Hacienda, and implied that something constructive would come out of such a discussion. To-day I had an interview with Ross and, among other questions, took up the problems arising through exchange control difficulties. A copy of a memorandum covering this phase of my interview is enclosed.

It will be noted that among the various points dealt with in the memorandum, articles 8, 9, and 10 treat of the French Compensation Agreement⁵ and that the intention of the American Government to request that equivalent treatment be granted to American commerce is reaffirmed. Supplementing the conversations which I have recently had at the Department on this subject there is enclosed a copy of the Note addressed to the Chilean Government by this Embassy on November 9, 1932, and which embodied in formal form our request for equivalent treatment.

Respectfully yours,

W. S. CULBERTSON

[Enclosure 1—Memorandum]

The American Embassy to the Chilean Ministry for Foreign Affairs

SANTIAGO, January 24, 1933.

On October 24, 1932, the Embassy submitted to the Ministry for Foreign Affairs a memorandum (copy enclosed)⁶ outlining important problems pending at that time and citing various types of cases illustrative of the serious difficulties confronting American interests and setting forth our position thereon. Since that date, far from being settled, many of these difficulties have become aggravated. There is outlined in this memorandum a restatement of these problems as they appear to us at the present moment, together with new matters which have since arisen.

I.

As before stated, American enterprises in Chile and the American Government recognize and sympathize with the economic difficulties which confront Chile at the present time. American concerns have already lost heavily as a result of the general economic depression and particularly as a result of the depreciation of the Chilean currency.

⁵ For text of the agreement, signed November 11, 1932, see F. Illanes, *Nuestros Tratados de Comercio*, p. 70.

⁶ Not attached to file copy.

In a number of cases businesses have maintained production under conditions which were not commercially sound but in the interests of national economy. They have made no unreasonable requests of the Chilean Government and no such requests will be made in the future. In justice, therefore, we believe that the same consideration should be granted to American enterprises in Chile as is given to Chilean enterprises and that they should receive treatment no less favorable than that which is accorded to other concerns operating within the country. We expect also that American enterprises be granted treatment equivalent to that accorded to the enterprises of any other foreign country. It is sometimes forgotten that Chileans have as great an interest as Americans in the continued solvency and operation of these industries.

II.

In facing the currency situation in Chile today it is desirable at the outset to recognize the facts. The fiction of an official rate of exchange may be maintained for the purposes of the general public but it cannot be maintained as a principle for the determination of the rights and privileges of the individuals affected. The facts are that there exist in Chile at the present time four rates of exchange :

- A. The official rate of approximately 16.50 pesos to the dollar;
- B. The rate at which foreign currency is sold on the unofficial market;
- C. The rate at which export drafts are sold with the approval of the Chilean Government against importations;
- D. The rate at which gold is sold in paper pesos.

III.

The export draft rate approximates the rate on the unofficial market and the "gold" rate and is in fact the true economic value of the Chilean currency. So far as is known no Chilean or Chilean enterprise sells foreign currency to the Central Bank at the official rate. If this statement needs qualification, the true information concerning the situation can no doubt be furnished by the Commission of Exchange Control. It is a matter of common knowledge that the wool companies of Magallanes, the fruit companies of Central Chile, the Chilean copper companies and other similar concerns are freely selling such drafts as come into their possession for a rate which has ranged within recent months from 35 to 50 pesos to the dollar. So far as it has been possible to obtain information concerning the somewhat secretive transactions of the Commission of Exchange Control, it appears that the only concerns in Chile now selling foreign currency at the official rate are the American copper companies.

IV.

Even Government agencies are using the export rate in their transactions although it might be reasonably expected that they would support the Government's policy of maintaining the official rate by selling foreign drafts to the Central Bank at the official rate. Without criticizing the policy of the Caja Minero, the fact remains that the Caja Minero sells the drafts which it receives from the sale of ore at the export rate and this procedure would indicate the justice of a similar policy in the case of foreign enterprises which may find it desirable to resort to it.

V.

These observations constitute the approach to a number of problems which confront American interests in Chile at the present time.

A. Since by a liberal and even extra-legal interpretation of the exchange law, Chilean interests are now able to sell their foreign drafts at their current economic value in Chile, no serious objection can be raised to steps which American enterprises may find it necessary to take in order to maintain their solvency and business structure. This observation is particularly pertinent to the American copper companies which unless afforded relief in this matter may find it impossible to continue operations.

B. American interests hope that some day the paper peso will return to the value of the gold peso. However, in justice to these interests their business policy should not be restricted by the fiction that the paper peso is equivalent to the gold peso at the same time that Chilean enterprises are dealing openly on the basis of a paper peso one-fourth or one-fifth the value of the gold peso. Under the force of economic laws, prices in Chile must and will gradually adjust themselves to the actual value of the currency. Prices include the rates charged by the public utility companies for light, power, and telephone service. The Government is already permitting an increase in railroad rates and it has in effect recognized the *de facto* peso in itself imposing a surcharge of 100% on customs and other revenues. Other prices are beginning to adjust themselves to the new economic situation. The decree, therefore, which suspended the right of the electric company to impose a surcharge effected not only an infringement of the obligation of contract (a point which will be considered in another memorandum) but was also contrary to the economic tendency at the present time.

C. The American copper companies remain the only concerns selling their foreign drafts at the official rate and if they are to continue to submit to this discrimination they should be given reasonable and

fair consideration in other matters. If they are not, the time may come when it will be impossible for them to maintain production.

VI.

Another problem which must receive urgent consideration at this time is the retirement funds of American citizens in the Caja de Previsión de Empleados Particulares. It will be recalled that the law obligates employees of private companies to deposit monthly in the Caja a percentage of their salaries toward a retirement fund. These employees may designate the currency, foreign or local, of their retirement funds it being further provided that retirement repayments will be made in the currency thus chosen. The majority of American citizens elected to make their contributions in dollars at an interest rate of only 3% as compared with the prevailing rate of 6% on funds in local currency. Thus a definite obligation was created against the Chilean authorities to repay the capital contribution, with interests, in the currency in which it was made to the employee upon his retirement from employment in Chile. This obligation is of a very special character, in the nature of a trust.

However, since the Commission of Control of International Exchange began to operate it has been impossible to obtain the remission abroad of these funds which have become due or even their release locally. At the present time many of the contributors who are entitled to the repayment of their funds under the law are in great difficulty, being without employment. Other contributors, having exhausted all other resources, are actually suffering privations. In view of this situation of actual individual need and the smallness of the sums involved, special consideration should be accorded these cases.

VII.

With regard to the question of re-export of consignment merchandise, as has been previously stated, we feel that in all justice, either the Company concerned should be permitted to re-export its products brought into Chile or it should be granted foreign exchange sufficient to meet its obligations owed abroad. A new situation has now arisen in regard to this particular question. It will be recalled that with the knowledge and concurrence of all authorities concerned the Foreign Office in November of 1932 entered into a definite understanding with us in regard to re-exportations. This understanding provided that authorization would be granted to permit the re-exportation of the merchandise in question under the condition that the full value thereof would be returned to Chile within a reasonable time or when the Chilean market might be in a position to renew its purchases. At the time the agreement was made a 10% quota was not considered

and the question of bank guarantees was raised but was definitely excluded. In spite of this these qualifications were subsequently added by the Control Commission. It may be pointed out that the assurances which the Foreign Office gave in November were accepted in good faith and the situation which has now been created by the action of the Control Commission and the Ministry of Hacienda is in every way unacceptable.

VIII.

Chile has surrendered, at least temporarily, a portion of her control over her exchange situation. The compensation agreements, first with France and then with Spain, place in the hands of foreigners the disposition of a large amount of foreign currency which is so necessary to Chile's essential needs at the present time and these foreigners are at liberty to use this foreign currency to reimburse themselves for goods exported to Chile and for the payment of back commercial debts.

IX.

In these circumstances, the American Government must consider the results which the foreign commerce of France and other countries obtain from such agreements with Chile and must reaffirm its request that equivalent treatment be granted to American commerce effective from the date on which such agreements go into effect. In other words, the American Government asks that whatever amount of foreign exchange France retains as a result of her agreement with Chile, that a similar amount be made available to American commerce through the Commission of Exchange Control in Santiago. This request was made officially and formally by the American Government in the Note of this Embassy, No. 903 dated November 9, 1932.⁷

X.

If, as a result of the economic situation in Chile, sufficient exchange is not available to place American enterprises on an equality with the position exacted by France in its compensation agreement, consideration should be given to determine what other treatment can be accorded to American business equivalent to that accorded to France. In this connection, account must be taken of those problems upon which the American Government has already made its position clear, such as:

- The release of bank deposits in foreign currency in Chilean banks;
- The payment of funds due to Americans in the Caja de Retiro;
- The release for re-export of products owned by American concerns and on consignment in Chile.

⁷ Enclosure 3, p. 111.

XI.

Summarizing the general attitude of the American Government, it may be said that if exchange control is to continue in Chile the American Government asks for its citizens equal and fair administration:—

- A. Between American interests doing business in Chile and Chilean interests;
- B. And between American nationals and the nationals of any other country.

[Enclosure 2]

Memorandum by the American Ambassador (Culbertson) of a Conversation With the Chilean Minister of Hacienda (Ross)⁸

[SANTIAGO,] January 25, 1933.

Mr. Ross had in his hand a copy of my memorandum on currency problems (enclosure No. 1, Despatch 1366, January 25, 1933). He had read the memorandum and had discussed it with Mr. Cruchaga. His first remark to me was that he found my observations on the various problems very reasonable.

I spoke of my note No. 903 in which we have requested treatment equivalent to that accorded France under her compensation agreement with Chile and I added that, while we did not wish to appear at any time unreasonable in our requests in view of the difficult economic position in which Chile finds itself, that nevertheless there had been a reluctance by the Chilean authorities to grant relief to American interests even in those cases which would not affect seriously the exchange situation of Chile.

We spoke in the first place of bank deposits in foreign currency owned by American citizens. Both Mr. Cruchaga and Mr. Ross stated emphatically that their Government would not support the policy of forcible conversion. Mr. Ross stated that in those cases in which the bank was willing and able to release the deposits his Government would impose no objection whatever but in the case of those banks which felt that they would be embarrassed by releasing deposits in foreign money he felt that a policy of gradual release would have to be worked out. I reminded him of the provision in Law 5107 providing for a 20% release every three months. I also reminded him that permission had to be granted in cases of release through the Commission of Exchange Control.

⁸ Mr. Cruchaga, the Minister for Foreign Affairs, was also present.

In this connection I spoke of the deposit of the Dupont-Atlas Company and the proposal to use this deposit to pay for Chilean copper needed by the Imperial Chemical Company. Ross stated definitely that such a transaction would meet with his approval and asked for further information concerning it.

In the case of re-exportation of articles on consignment it was evident that he had been influenced by the Labor Minister who had told him that the machines which the Singer Company desire to re-export are rented machines. I stated to him that this was not the case and gave him a memorandum showing that the machines which would remain for sale in Chile even after the machines in controversy were exported were ample for the country's needs. He apparently desires to handle the matter himself and asked that the representative of the Singer Sewing Machine Company call to see him.

Ross spoke with considerable sympathy on the situation of the copper companies. He stated that it was unfair for them to have to sell their dollars at 16.5. However, he said frankly that he would not want the companies to reduce the number of dollars which they sold in Chile. He said that he would propose to the companies to allow them a better rate in pesos if they would agree to continue to bring into Chile the same number of dollars that they are bringing in at the present time. He thought that the companies could use the extra pesos to purchase Chilean coal and for other purposes within the country. He also stated that there had been a secret exchange of letters supplemental to the French Compensation Agreement which reduced the percentage of exchange which the French retain in the case of copper from 100% to, I think he said 25%; in any case a substantial reduction which will permit copper sales in France.

Ross also stated that the observations in my memorandum concerning the retirement fund were reasonable but he raised the question as to what could be done in view of the financial condition of the Caja. I told him that there were certain needy cases which I would bring to the attention of the Foreign Office and I hoped that some effort would be made to relieve them.

In general the impression I received was that Ross would make a serious effort to solve favorably some of the problems affecting American interests arising out of the currency situation.

The conversation then turned to nitrate for which see memorandum, enclosure No. 2 of Despatch No. 1365, January 25, 1933.⁹

W. S. CULBERTSON

⁹ Not printed.

[Enclosure 3]

The American Ambassador (Culbertson) to the Chilean Minister for Foreign Affairs (Matte)

No. 903

SANTIAGO, November 9, 1932.

EXCELLENCY: With reference to the compensation agreement recently concluded at Paris between Your Excellency's Government and the Government of France, and acting under instructions from my Government, I have the honor to inform Your Excellency that the Government of the United States anticipates that the Government of Chile will accord to it a treatment equivalent to that granted to France under the said compensation agreement, from the date on which that agreement became effective.

I avail myself [etc.]

W. S. CULBERTSON

611.2531/53a

The Secretary of State to the Ambassador in Chile (Culbertson)

No. 1461

WASHINGTON, February 6, 1933.

SIR: The Department refers to conversations which you had with various of its officers during your recent period of consultation with the Department in which it was determined: that this Government, for reasons of policy and also because of the lack of appropriate agencies therefor, is not in a position to avail itself of the agreement which the Chilean Government has expressed itself as willing to conclude with the United States similar to the French compensation agreement; and that upon your return to Chile you would endeavor informally to obtain, in lieu of a compensation agreement, more favorable treatment for Americans in the release through the Exchange Control Commission of dollar deposits and foreign exchange for peso deposits belonging to American citizens.

In this connection there is transmitted herewith for your information a copy of despatch No. 1023 of January 3, 1933 from the Embassy at Madrid enclosing a copy of the recent Spanish-Chilean compensation agreement.³⁰ The Department believes that in the course of the conversations which you will have with Chilean officials you will be able to use that provision of this agreement relating to frozen Spanish credits (Article II) with good effect in your endeavor to obtain relief for similar frozen American credits in Chile.

Very truly yours,

For the Secretary of State:

FRANCIS WHITE

³⁰ Neither printed.

825.5151/82

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1374

SANTIAGO, February 7, 1933.

[Received February 16.]

SIR: With my despatch No. 1366 of January 25, 1933, I enclosed a copy of a Memorandum of January 24, 1933, in which I reviewed for the information of the new Foreign Minister, Mr. Cruchaga, many of the problems long outstanding between this mission and the Foreign Office. Since all of these matters have become hopelessly involved in delays, evasions and unfulfilled promises and we were making no progress I determined to adopt a different policy of dealing with the Foreign Office. Accordingly, instead of presenting these matters in a general way as has been the practice in the past in the expectation of achieving better results by informal instead of formal negotiation, I am now taking up the pending questions individually and asking in each instance for some specific action or decision. My viewpoint in this respect is set forth in Note No. 955 of February 3rd, 1933, a copy of which is enclosed for the Department's information. At the same time I am transmitting copies of two other communications²² recently addressed to the Foreign Office seeking action or solutions in two issues that call for prompt attention. It is my expectation that after taking up these matters directly and personally with the Foreign Minister and having arrived at a decision as to what can be done he will then delegate the working out of the details to some member of his staff with whom we can deal directly in finally disposing of the matter.

Respectfully yours,

W. S. CULBERTSON

[Enclosure 1]

The American Ambassador (Culbertson) to the Chilean Minister for Foreign Affairs (Cruchaga)

No. 955

SANTIAGO, February 3, 1933.

EXCELLENCY: In a memorandum dated January 24th I brought to Your Excellency's attention a series of problems which have been pending for a long time between the Chilean Government and this Embassy. This memorandum did not raise the fundamental issues

²² Notes Nos. 952 and 953, January 31. No. 952 is not printed; it asked for the release of the savings account to an American woman about to return to the United States. Despite representations by the Embassy she had been unable to obtain the release of her savings after 7 months of delay.

for which sooner or later solutions will have to be found. It merely presented problems long pending for which relief can be given without prejudicing Chile's economic position but which have remained unsolved largely because of the unsympathetic attitude of certain agencies of the Chilean Government or because, acting through the normal channels of diplomatic intercourse, it has been impossible to obtain the co-operation from other branches of the Government necessary to the carrying out of agreements arrived at with the Foreign Office. For more than a year we have met with evasion and delay or at best with apologies that one branch of the Chilean Government is unable to obtain action from another. Decisions adverse to American interests have been prompt and definite; decisions for American interests which should follow in the simple course of administration have been put off or rejected. In short, effective relief to American interests has not been given.

It is earnestly hoped that this policy will be changed. Your Government can, if it desires, settle immediately the cases of re-exportation and bank deposits; it can see that a satisfactory settlement is made with individuals having the right to withdraw their retirement funds from the Caja de Retiro; it can place restraint upon the unjust decisions against American interests in the Labor Tribunals; it can adjust equitably the tariffs of the American-owned public utility companies; it can grant relief to the American-controlled copper companies which are struggling to keep up production in the face of a serious world situation; it can instruct the Treaty Commission to consider the interests of American trade *pari passu* with the interests of the trade of other countries and submit in the near future a basis for the exchange of notes in reply to my formal communication No. 903 of November 9, 1932.

I have felt it desirable and necessary to bring these points to your attention since it is quite clear that it is no longer in the interest of good understanding that I withhold a frank statement of the situation. We have reached a place in the relations between the United States and Chile when we must expect more than vague assurances which remain unfulfilled. With the many demands upon your time I naturally desire to avoid burdening you with what should be essentially routine matters but, since for one reason or another, these questions are still pending after months of negotiations I have no other recourse but to ask Your Excellency's personal interposition and assistance in reaching a final and definite disposition of these long-standing problems.

I avail myself [etc.]

W. S. CULBERTSON

[Enclosure 2]

The American Ambassador (Culbertson) to the Chilean Minister for Foreign Affairs (Cruchaga)

No. 953

SANTIAGO, January 31, 1933.

EXCELLENCY: I have been somewhat disturbed to note that the press continues to report discussions in the Treaty Commission concerning commercial arrangements with Germany, Belgium, Italy and Cuba, although no suggestion appears therein concerning similar arrangements with the United States.

In this connection you will recall that in my Note No. 903 of November 9, 1932, my Government requested equivalent treatment and no doubt the Commission now has before it this request. The position of my Government on this question was also briefly outlined to you in my memorandum of January 24, 1933. I sincerely hope that the consideration which I assume the Treaty Commission is now giving to the above-mentioned request of my Government will help it to advance toward a solution of the question of equivalent treatment in respect to my Government *pari passu* with the consideration which it is giving to the commercial relations of Chile with other countries.

You are of course aware that no discriminatory restrictions are placed on Chilean trade in the markets of the United States. Your country is therefore receiving the maximum treatment in the American market which you can hope to receive from other countries with which you are negotiating compensation agreements. In considering the position of American trade in Chile my Government looks to the results obtained by other countries and asks for equivalent treatment. Whether the arrangement between our Governments will take the form of an exchange of notes or some other form can be determined as the discussions proceed. It need scarcely be added that my Government expects that the problems of American commerce will be considered along with the problems relating to the commerce of other countries and in fact confidently expects that they are so being considered by the Chilean Government.

I would appreciate an indication from Your Excellency as to when it would be convenient for you to enter into conversations looking to an arrangement on this matter.

I avail myself [etc.]

W. S. CULBERTSON

825.5151/81

The Secretary of State to the Ambassador in Chile (Culbertson)

No. 1471

WASHINGTON, February 23, 1933.

SIR: The Department acknowledges the receipt of your despatch No. 1366 dated January 25, 1933, regarding certain pending problems

affecting American interests in Chile, notably exchange difficulties, the blocking of retirement funds belonging to American citizens, the impediments to re-exportation of certain American property in Chile, and the means for extending treatment equivalent to that granted France and Spain to American commercial interests in Chile, which have been unable so far to unblock their frozen assets.

The Department commends you for the able and effective presentation of the above-mentioned problems and takes this opportunity to express its appreciation of the way in which you have pointed out in the memorandum left by you at the Chilean Foreign Office on January 24, last, the steps which should be taken by the Chilean authorities to extend due and effective protection to the American interests concerned. The Department will await with interest the result of your representations under reference.

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

825.516/243

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1397

SANTIAGO, February 28, 1933.

[Received March 9.]

SIR: With reference to the Embassy's despatch No. 1330 of December 7, 1932,¹² reporting on progress made with respect to the problem of foreign currency deposits in the banks in Chile and the agreement reached for the release of these deposits in certain individual cases, I have the honor to state that following the inauguration of the Alessandri Government difficulties developed in carrying out the agreement in question. Two causes were responsible for this situation: first, an attempt upon the part of certain banking institutions to revive the obligatory conversion provisions of Law No. 5107; and second, the more critical financial situation in Chile which has obliged the Government to give every possible consideration to the suggestions or demands of the banking institutions. It has therefore been necessary to review with the Foreign Office and the Minister of Hacienda the entire question of bank deposits, and I have the honor to report that the Minister of Hacienda has declared that he will authorize the release of "small" deposits in banks which make no objection to their release, but that in the case of "larger" deposits further consideration will be necessary.

This arrangement is much more satisfactory than the statement would appear to indicate. In other words it means that in the case of actual necessity of small depositors it will be possible to obtain the

¹² Not printed.

release of their funds. The first practical application of this understanding has been successful in the case of Miss Sarah Adams which was taken up in my Note No. 952 of January 31, 1933¹³ (Enclosure No. 2, despatch No. 1374, February 7, 1933). Under date of February 24, 1933, the Minister for Foreign Affairs informed me that the Commission of International Exchange had authorized Miss Adams to withdraw her deposit amounting to \$937.58. Arrangements are now being made with the appropriate authorities to the end that other individual Americans may withdraw their deposits.

With regard to deposits which it might be difficult to classify in the foregoing category, effective relief is being obtained through the authorizations of the Control Commission to use these deposits for the payment of new importations. Several Americans doing business in Chile have taken advantage of this procedure and have thus indirectly obtained the release of their deposits.

The most difficult problem has been in the case of the one large American deposit, the *Compañía Sud Americana de Explosivos*, a Du Pont subsidiary, the composition of which deposit was reported in detail in my despatch No. 1189 of July 6, 1932.¹⁴ For some time it did not seem possible to make a satisfactory disposition of this account in view of the size of the deposit which made it a temptation to the banks and the Government. However, following the recommendation made in my despatch No. 1282 of October 10, 1932,¹⁴ arrangements were initiated and are now being concluded for the gradual release of this deposit. The first transaction concluded is the sale of approximately \$272,000 dollars of Chilean copper by the Braden Copper Company to the Imperial Chemicals, Ltd., the payment for which will be made from the deposit of the *Compañía Sud Americana de Explosivos*. Only two conditions have been imposed by the Control Commission both of which have been accepted by the interested parties. The first is that the \$272,000 will be released in partial payments as required by the Braden Copper Company, and the second that the entire amount must be used prior to April 15th. I am informed that the copper company has availed itself of \$75,000 to date, and that the entire amount will be used before the date of expiration, whether required or not, under guarantee of the Imperial Chemicals against any possible loss by the copper company in case of a further depreciation in the value of the peso.

With regard to the balance of this deposit, approximately \$285,000 dollars, I have the honor to report that the Manager of the Du Pont subsidiary is now negotiating with the Control Commission to obtain authorization to apply the balance of the account for purchases of

¹³ Not printed; see footnote 11, p. 112.

¹⁴ Not printed.

sodium sulphate (salt cake) and possibly further purchases of copper. I understand that the Manager anticipates that these negotiations will terminate successfully. However, further difficulty can be expected especially since some of the funds of the Compañía Sud Americana de Explosivos consist of sterling deposits in British banks which might resist their release.

It will be observed from the foregoing that this vexatious and long-standing problem is now rapidly being solved and that it can be anticipated that its irritating effects upon our relations with Chile may soon be eliminated.

Respectfully yours,

W. S. CULBERTSON

611.2531/57

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1401

SANTIAGO, March 8, 1933.

[Received March 16.]

SIR: With reference to sections 8 and 9 of enclosure No. 1 and enclosure No. 3 to my despatch No. 1366, January 25, 1933, and to enclosure No. 3 of my despatch No. 1374, January [February] 7, 1933,¹⁵ I have the honor to transmit copies of a series of communications exchanged recently between the Chilean Foreign Office and this Embassy^{15a} on the subject of treatment for American commerce equivalent to that granted European states under the so-called compensation agreements. Mr. Cruchaga's note (enclosures Nos. 1 and 2) stated that the Chilean Government is well-disposed toward reaching an agreement with the United States which will adjust the payment of pending commercial credits and consequently trade relations. It then requests a statement of the amount of American frozen credits in Chile. In reply we estimated these credits at approximately 21,000,000 dollars (enclosure No. 3). Mr. Cruchaga then requested further details (enclosures Nos. 4 and 5). In our reply we furnished the information requested and availed ourselves of the opportunity to emphasize again the fact that the American Government does not look with favor upon compensation agreements but looks to the results obtained by the commerce of other countries under compensation agreements and seeks equivalent treatment for American commerce.

The policy pursued by this Embassy is in full accord with the Department's instruction No. 1461 of February 6, 1933. However, while indicating on the one hand, the unsound commercial policy which lies back of compensation agreements, we have, on the other

¹⁵ Herein printed as enclosure 2, p. 114.

^{15a} None printed.

hand, made it clear that Chilean commerce is now enjoying without restrictions in the markets of the United States the maximum advantages which it enjoys under the French compensation agreement and that in fact the advantages are in principle more than those enjoyed in the French market since no restrictions are placed on Chile which are not equally applicable to all other countries. We therefore have made it clear that American commerce should receive similar benefits to those which other nations have exacted through compensation agreements. This point of view was fully developed in our memorandum of January 24, 1933 (enclosure No. 1 of despatch No. 1366, January 25, 1933). In that communication we stated that the American Government considers the results obtained from compensation agreements under which Chile has surrendered her control over a portion of her foreign exchange by placing in the hands of foreigners the disposition of foreign currency created by Chilean commerce. We pointed out that foreign interests are thus at liberty to use this foreign currency to reimburse themselves for goods exported to Chile and for the payment of back commercial debts. Our objective has been to impress the Chilean Government with the fact that Chile obtains freely exchange created by the sale of its products in the United States and that no steps are taken in the United States to block any amount of this exchange, and that therefore Chile should look with favor upon requests made by American interests through the commission of International Exchange Control for exchange and for other relief which can be readily granted.

The Department's instruction No. 1461 of February 6, 1933, refers to the "release of foreign currency deposits belonging to Americans". Without minimizing the many annoyances and difficulties which this problem has and may still present, we have made progress in closing out the large accounts and the Government has given us strong assurances that it will facilitate the withdrawal of small deposits (despatch No. 1397, February 28, 1933). We have therefore thought it best to give less prominence to the release of bank deposits among the equivalents which we are seeking from the Government (enclosure No. 6). If in the future the understanding on this subject which we have with the Government does not work satisfactorily it will be necessary to include them within the scope of the general understanding now under negotiation.

Having rejected as a matter of principle the negotiation of a compensation agreement similar to that exacted by France from Chile, we find open to us the general policy of using concessions granted to France as arguments in favor of granting in Chile foreign exchange to American commerce and in other ways granting relief to American interests. It is evident that there will be difficulties in persuading the Chilean authorities to accept definite obligations in an exchange

of notes, although Mr. Cruchaga has said to me in conversations that he is willing to discuss this point. We have no concrete *quid pro quo* to offer. In a sense we suffer from our very liberality in that Chile is now able to ship nitrates freely to the United States without quota restrictions and without the payment of any tariff. We therefore accord to Chile more liberal treatment than that given by France or any other country under compensation arrangements. If we could create some disadvantage for Chilean commerce in the United States, we then could use the removal of that disadvantage for bargaining for the release of frozen credits and for the allocation of exchange for new business.

Presumably the American Government would not find it feasible to pursue a restricted policy of this kind and I believe that our liberality toward Chile will ultimately result, if not in the exchange of notes, at least in the adoption of a more liberal policy by the Chilean Government in dealing with particular cases. We may even be able to use in this case the same procedure which we followed at the time of the successful negotiation for the exchange of notes establishing the *modus vivendi* of September 28, 1931.¹⁶ In our note in the present case we could state, in somewhat different form our willingness to continue to grant to Chilean commerce most-favored-nation treatment and point out that this commerce is now receiving freely from the United States more than the maximum advantages granted to it under any of the compensation agreements. In the Chilean reply we might expect to receive assurances covering more exchange for the current needs of American commerce and for the liquidation of various types of frozen credits.

In case it proves impracticable to include our understanding in the exchange of notes, the alternative is to continue the method which we are now pursuing with some success; namely, to press for relief in particular cases and with patience and perseverance to insist upon equal and fair treatment, first, between American interests doing business in Chile and Chilean interests, and second, between American nationals and the nationals of any other country.

Respectfully yours,

W. S. CULBERTSON

611.2531/57

The Secretary of State to the Ambassador in Chile (Culbertson)

No. 1483

WASHINGTON, April 3, 1933.

SIR: The receipt is acknowledged of your despatch No. 1401, dated March 8, 1933, in which you set forth your views and report the repre-

¹⁶ *Foreign Relations*, 1931, vol. I, pp. 926-927.

sentations made by the Embassy with a view to obtaining equivalent treatment for American interests to that granted to other foreign nations by Chile's various compensation agreements.

The Department appreciates the Embassy's constructive interest in this matter and hereby approves the views which you have conveyed to the Minister for Foreign Affairs in your notes of February 23 and March 3, 1933.¹⁷

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

611.2531/61

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1454

SANTIAGO, May 10, 1933.

[Received May 18.]

SIR: I have the honor to refer to my despatch No. 1429 of April 19, 1933,¹⁸ and to the Department's instruction No. 1483 of April 3, 1933, approving the views which this Embassy has expressed to the Chilean Government on the subject of treatment for American commerce equivalent to that granted by Chile to certain other countries under the so-called compensation agreements. Following up former communications, I pressed for some action by addressing a letter on May 4th to the Minister for Foreign Affairs (enclosure No. 1).¹⁸ In a conference with Mr. Cruchaga, the Minister for Foreign Affairs, yesterday afternoon, the question of American credits was discussed. He stated that he had called a meeting of the Treaty Commission to meet on Friday and instructed that the first order of business would be the frozen credits of American citizens and companies in Chile, and means whereby they could be released in part at least on a basis similar to that granted to other foreign countries.

If nothing definite results promptly from the meetings of the Treaty Commission, I must emphasize the importance of affirmative action by the Department if we are to secure any relief for our frozen credits in Chile. This subject has been reported fully by this Embassy (including reports of the Commercial Attaché). Both in writing and orally I have urged upon the Chilean Government the justice of our request for treatment equivalent to that granted to France and other countries who have blocked Chilean exchange created by their pur-

¹⁷ Neither printed.

¹⁸ Not printed.

chases from Chile. This conciliatory attitude has not met with any responsiveness until yesterday, however, and it is too soon to say whether the reassuring attitude of Mr. Cruchaga will yield results.

Personally, I am opposed to the type of commercial policy represented by compensation or blocking agreements. However, if the Chilean Government is unwilling to comply with our reasonable requests we have no alternative but to seek some means of blocking for the benefit of our frozen credits such exchange as is created by purchases of Chilean goods in the United States. Presumably, this might be done by simple executive action under the broad powers which have been granted to the President by the Congress. While the new attitude being shown by Cruchaga leads me to hope that there is some chance that Chile may now be prepared to enter into a definite agreement which will accord us relief for our frozen credits, our experience for the last year or two in endeavoring to obtain satisfaction from the Chilean Government and the circumstances surrounding the negotiation of the French compensation agreement do not lead me to undue optimism. It is pertinent to recall in connection with the French agreement that the Chilean Government did not enter into this arrangement with France even under the pressure of threats of reprisals but only reluctantly signed the agreement after France had actually begun to refuse to license the imports of Chilean nitrate. Should our present conversations lead to nothing, I really feel that we should take some definite steps to bring relief to our business interests in Chile which have patiently endured the unreasonably restrictive policy pursued by the Chilean Government with regard to the liquidation of credits. These interests now see that other governments are giving some form of substantial protection to their nationals through compensation arrangements or agreements such as the one recently entered into between Argentina and Great Britain.¹⁹ Our nationals are now getting restive and quite understandably are pressing for similar measures of relief from our own Government. We may anticipate that if this situation drags on it may very pointedly be asked in Washington why our diplomacy is not as successful as that of other countries.

If I find a disposition on the part of the Chilean Government to discuss seriously an agreement which will be satisfactory to us I will telegraph my recommendations.

Respectfully yours,

W. S. CULBERTSON

¹⁹ For correspondence regarding the Anglo-Argentine (Roca) Agreement, see vol. iv, pp. 722 ff.

611.2531/60 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, May 12, 1933—4 p. m.

[Received 8:20 p. m.]

67. Referring to my despatch No. 1395, March 1st,²⁰ I recommend that authorization be granted immediately to this Embassy to propose to the Chilean Government and, if accepted by it, to negotiate a convention including therein the following essentials:

(a) Unconditional most-favored-nation treatment.

(b) The maintenance for 3 years of sodium nitrate on the free list without quota or other restrictions.

(c) The foreign exchange created by the sale of Chilean products or by other Chilean transactions in the United States to be made available for American commerce so long as Chile maintains exchange control. This provision to be made immediately effective.

(d) The setting aside of a percentage of the Government's income from the nitrate industry for American holders of Chilean bonds. Reference enclosure number 1, despatch number 1443, April 29th.²¹

(e) An agreement to enter into an additional convention to extend the terms of this convention to other matters of mutual but less urgent interest.

I recommend the above convention since it seems a practical means by which a limited agreement can be reached on the matters in which each country is most keenly interested. My suggestion is based on the assumption that the broad powers extended to the President to adjust international economic relations would permit him to assume and make effective the necessary commitments. If these powers are not sufficiently broad, the convention can be submitted for ratification to the Senate and in the meantime the provision on releasing exchange can be made effective by an immediate exchange of notes. Presumably the mechanics of the convention would necessitate placing the control of Chilean imports to the United States in the hands of some suitable Government agency but not necessarily especially set up for this purpose. It will be essential to supplement the convention proper with a protocol to carry out its provisions. There seems to be more chance of putting through a convention of this kind at the present moment than heretofore. Unnecessary delay will result if we should endeavor to include in the first convention the copper duty in the United States, tariff rates in Chile, national treatment for

²⁰ Not printed; it conveyed the information that the Chilean Minister for Foreign Affairs had expressed a desire to begin discussions looking to the negotiation of a permanent commercial treaty between Chile and the United States (611.2531/55).

²¹ Not printed; for text of memorandum transmitted with the despatch, see p. 187.

American industry and similar matters. These, in my opinion, can be taken up with better effect later and embodied in an additional convention.

My German colleague informs me that his Government has banned all Chilean nitrate but is prepared to license 100,000 tons provided the proceeds are made available for German frozen credits. In spite of our dislike for blocking agreements we are losing heavily by virtue of the present situation in Chile under which European governments have obtained by force advantages for their nationals, whereas our conciliatory methods have resulted in injustices to our interests. The negotiation of the above-mentioned agreement, however, would still proceed on the basis of conciliation and offers us a way to obtain relief for our interests without the use of threats or reprisals.

We must face the fact that there will be some divergence of opinion among Americans with reference to the agreement herein proposed, namely, between interests concerned only with commerce, public utility companies unable to release their peso profits, copper and nitrate interests who feel that they are already carrying the burden of Chile's exchange problems, and the banking and foreign debt interests. We have endeavored, however, to reduce the divergence of opinion to a minimum in the proposal which we are making and in our opinion the differences which at their solicitation must be put aside and the main objective of improving the position of American commerce and finance in Chile in relation to that of other countries must be given first place.

CULBERTSON

611.2531/62

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1461

SANTIAGO, May 17, 1933.

[Received May 25.]

SIR: Amplifying my telegram No. 67, May 12, 4 p. m., I have the honor to submit certain additional suggestions in regard to the negotiation of a commercial convention. They are based on the policy of conciliation and equitable treatment which has characterized in the past the approach of this mission to Chile-American problems. They are an attempt to remove certain of the problems from the region of sentiment and give them reality. I am convinced that in order to obtain action by the Chilean Government we must make it appear that Chile will gain something or lose something, if it refuses to proceed with the negotiations. The proposed agreement covers four points, important in themselves and more important as precedents, if established:

I. REASONS BEHIND OUR PROPOSAL

1. An agreement with Chile on trade matters is most urgent from our point of view. It is also timely as respect to the situation here. There is a favorable atmosphere at the Foreign Office. Cruchaga's influence is gaining in the government and his position as Foreign Minister and his genuine friendliness to the United States afford us an unusual opportunity to seek solutions to many of our problems. The announcement of the Argentine's decision to send a treaty commission to the United States, the World Economic Conference²² and other discussions have aroused interest in international treaty relations. The country appears to be in a receptive mood and the recognition of the bad influence which excessive tariffs and other trade restrictions exercise against a return to better conditions is gaining ground.

2. The need for some adjustment is urgent because of the increasing damage to our commerce resulting from the various Chilean compensation agreements and from the exchange policy of the Central Bank. Not only are we not sharing advantages granted to others in the releasing of frozen credits but trade which normally belongs to the United States is being diverted, as a result of compensation agreements, to our trade rivals. The recent "Roca Agreement" between the Argentine and Great Britain giving British commerce relief in the matter of frozen credits has increased the impatience of American business men that they are not benefiting by similar protection and advantages.

II. SCOPE OF PROPOSAL

We feel it wise to limit the immediate object of the proposed convention to those matters which are urgent and on which there is already a degree of agreement with the Chilean Government. Therefore, our recommendation is to treat the situation in the simplest possible way which appears to us to be by means of a convention, supplemented by a protocol setting up the mechanics of the plan.

III. POINTS TO BE NEGOTIATED

As suggested in our telegram No. 67, we feel that the convention should include the following points:

A) *Unconditional most-favored-nation treatment.*

We have this treatment now in the *modus vivendi* which can be terminated on two weeks notice. An important aspect of this section will be the exemptions. It will give an opportunity to make our position clear with reference to the Chilean conception (rather aca-

²² See vol. I, pp. 452 ff.

demio) that special arrangements with all Latin America should be excepted from Chile's pledge of most-favored-nation treatment. We should take this occasion to repeat our positive opposition to this unsound regional conception, based merely on the historical bonds with Latin and mother countries—Spain and Portugal. Whether we will concede exception of all border countries (and claim the same for ourselves) is the chief practical question to be determined.

B) *Nitrate duty free and unrestricted.*

This proposal merely reaffirms the *status quo*. With all other countries limiting or preventing the importation of Chilean nitrate this provision will appeal strongly in Chile. At the same time it is sound policy for the United States. Nitrate is Chile's most important article of foreign trade and its chief concern is to keep a market open for this export. It is with this object primarily in mind that Chilean trade policy is being reoriented on the basis of seeking reciprocal arrangements by mutual concessions while maintaining the principle of the most-favored-nation. As regards our own attitude, press despatches have given us reason to believe that the President has or will seek broad powers to commit the United States to concessions of this character. These commitments in the proposed convention would be virtually limited to an agreement not to place restrictions on trade. Our money market is closed to all practical purposes to Chile and there is little other than tariff concessions that we can offer as inducements to persuade Chile to accord fair treatment to our commerce. During the course of the negotiations, Chile must be made to realize that we may have to modify our conciliatory attitude and resort to harsher measures should our trade continue to be imposed upon. The idea of a three year period suggested for the duration of the assurance concerning imports of nitrate into the United States has already appeared in various legislative proposals, presumably because it is felt that in view of the continuing economic crisis throughout the world that at least three years will be necessary to work out more normal economic relations.

In view of the urgency of the situation we feel that, to avoid delay, our agreement with Chile should be drafted in a form which can be made effective by simple executive action. For this reason, in the event that the Executive is not given powers by Congress sufficiently broad to allow him to enter into direct tariff adjustments with foreign countries, the article dealing with the assurances regarding nitrate importations might be worded to avoid an affirmative commitment. This might be accomplished by phrasing the article to include merely an affirmation on the part of Chile to grant the concessions we seek, so long as we maintain the present status of sodium nitrate on the free list without quota or other restrictions.

C) *Release of Frozen Credits and Allocation of Exchange.*

These objectives are the chief purpose of this proposal. In this matter we are merely asking the same treatment which Chile has already granted to certain other countries. We are entitled to this treatment as a matter of international practice without making any concession in return. The dual disadvantage to our commerce from the cutting off of exchange and the diversion of trade must be relieved. It is the duty of our diplomacy to make every contribution we can to this end. The study which the Commercial Attaché has made and which is enclosed herewith²⁴ emphasizes the fact that even though the proposal may not make available important sums for the liquidation of our frozen credits it is essential to come to some arrangement which will stop the continuous flow of our normal trade here to other countries working under compensation arrangements and thus maintain a fair volume of our commerce with Chile.

To be of much value the concession by Chile on the matter of exchange must be made immediately available. It would greatly lessen its usefulness if it had to await formal ratification before being put into effect. This would not seem to offer any serious difficulty judging from the procedure established in the *modus vivendi* with Germany by which the agreement became operative on a definite date in lieu of ratification. With respect to this provision we may well have to take into account in some way the special situation existing in Chile arising out of the fact that it is American interests backed by American banks that produce and control the bulk of Chile's exports to the United States. We cannot hope, therefore, to withhold the entire proceeds of Chile's sales in the United States and in fairness we should be prepared to make some concession by a certain percentage to be made available to those American interests. The situation might be met by a proviso as follows:

"provided that in the case of exchange created by the exportation of copper, iron ore, nitrate and iodine, the amount of foreign exchange made available for American commerce shall not exceed the percentage of their costs in Chile which the sales in the United States hold to their total world sales."

D) *Partial Resumption Foreign Debt Service.*

This idea was suggested by the Finance Minister in a letter to the President (see enclosure No. 1 to despatch No. 1443 of April 29th)²⁴ and his recent statement on the budget (see despatch No. 1450, May 9, 1933)²⁴ referring to the importance of taking some measures promptly to support Chile's credit. These declarations may be nothing more than a gesture at this time but an opportunity is afforded to assist in

²⁴ Not printed.

the materialization of this gesture by incorporating the idea in a convention. Such a step seems highly desirable since it would help keep this obligation before the public and lessen the chance of ultimate repudiation. I recommend we take it seriously.

E) *Agreement to Negotiation Permanent Commercial Treaty.*

In my opinion an attempt at this time to negotiate a complete commercial agreement will not be successful and we will gain nothing at all. For this reason, already explained, the convention now proposed should be limited to most urgent matters and it will be necessary to negotiate a further agreement providing a solution for other pending but less pressing problems. However, if we negotiate successfully the limited agreement on urgent matters we will prepare the way for an additional and more comprehensive agreement. And such agreement will or should develop naturally after the World Economic Conference.

The instructions to the Chilean delegates to the World Economic Conference (my telegram No. 66, May 12, 11 a. m.)²⁵ indicate that Chile will coöperate with you in making world trade freer. Time, however, will pass before the ultimate goal is reached. The present Chilean Government, for example, is not disposed to give up exchange control. And many other countries will give up only gradually their nationalistic policies. The World Conference will adopt some definite reforms and it will establish many tendencies toward better world economic relations. These tendencies we must encourage and reduce to treaties. In the meantime we must be practical and protect our interests in every way not inconsistent with the ultimate objective. It is at this point that my proposed convention fits in.

In addition to the matters normally embodied in a commercial treaty my despatches have made it clear that there are many other special points on which an understanding is necessary. Among these may be mentioned the problem of national treatment, retirement funds, re-export, taxation, and tariff rates. As Chile is a high tariff country probably the most important phase to be taken up will be the question of reciprocal tariff treatment. In connection with this point it is important to consider the special tariff relations between Chile and the United States. Whereas a very large proportion of Chilean exports enter the United States duty free, over 90% of our exports to Chile are taxed, many of them very heavily. It is apparent therefore that we have much to gain and little to lose by tariff adjustments. Our maximum concession in this respect would seem to be a lowering of the duty on copper. It is my understanding that this would not in fact involve an appreciable loss of revenue to our Government since Chilean copper exported to the United States after refining is re-exported on a 99% drawback.

²⁵ Not printed.

IV. MECHANICS OF THE CONVENTION

As previously stated it is our idea that a protocol will be provided to take care of the mechanics of the convention. In view of the altered situation in the United States and the distress of our commerce it is our feeling that public opinion is prepared to accept the use by the Executive of broader powers in adjusting trade relations. Therefore, there would no longer appear to be an insuperable difficulty to accomplish the blocking and allocation of funds by executive action operating through the medium of an already existing government agency. Possibly the simplest means would be through the New York agency of the Department of Commerce since the bulk of Chile's exports enter New York where the proper accounting and control and coöperation with the customs could be worked out. With this agency could be filed all pending claims and the appropriate allocations could be made based thereon. The Embassy fully realizes the scheme may present legal and procedural difficulties, difficulties which must surely yield if they are met with the same flexibility with which we are meeting the new situation created in our world trade and our critical domestic problems. Our problem in Chile requires at this stage affirmative action by our Government and if it is approached with this in view legal difficulties should be made to conform to the realities of the situation.

It is realized that it may be possible that some new international policies may emerge as a result of the London Economic Conference which will serve to destroy compensation agreements and other special blocking arrangements. It seems very doubtful, however, given the difficult financial situation existing in Chile, if that country of her own accord will liberalize her exchange restrictions even though convinced of the soundness of such a procedure in theory. Awaiting normal times is no solution since when such times arrive, there will be nothing left to distribute to American creditors, in view of Chile's vitally impaired situation. It may of course appear that Chile does not have sufficient importance to warrant the somewhat special treatment which would result from the proposed commercial convention. However, if we are able to evolve practical policy with Chile which will relieve the difficulties of American business such a policy may well serve as a guide to our approach towards similar problems throughout South America whose importance if temporarily dimmed cannot be indefinitely ignored by the United States.

In proposing an arrangement by which a portion of Chile's export sales in the United States can be made available for American trade we realize that the procedure involved will not be easy or simple. However, world conditions have changed and changed rapidly and

we can no longer rely on the placid course of our traditional diplomacy to solve the difficult problems confronting us in Chile.

Respectfully yours,

W. S. CULBERTSON

611.2581/64

Memorandum by the Assistant Secretary of State (White)

[WASHINGTON,] May 19, 1933.

The Chilean Chargé d'Affaires called and, with reference to his inquiry of the eighteenth of Mr. Phillips whether Ambassador Culbertson, in taking up the matter of frozen assets and exchange of Americans in Chile, was acting under instructions of the Department, I told him that when Mr. Culbertson was here last winter he advised the officers of the Department that the Chilean Government had expressed its willingness to conclude a compensation agreement with this Government along the lines of the ones concluded between Chile and France and with Spain. I said that Mr. Culbertson had been told then, and this had been confirmed in a written instruction afterwards, that this Government would not ask Chile to enter into a compensation agreement, but, in its place, would like him to ask the Chilean Government for more favorable treatment of Americans in the release through the Exchange Control Commission of dollar deposits and foreign exchange for peso deposits belonging to American citizens. I told him that there were many cases of Americans who, under Chilean law, had contributed part of their salaries to a retirement fund. On account of the depression, the activities of American companies in Chile had been greatly curtailed and many of these American employees in foreign countries had been called home. Some of them, on account of conditions in this country, are now without work, and it is a very great hardship on them not to be able to obtain the funds which they have on hand in Chile, and I said I thought the Chilean Government should take care of these cases and also give more favorable treatment to American companies who had peso deposits in Chile.

Mr. Cohen emphasized the difficulties of the economic situation in Chile and of the exchange restrictions which made it hard even to get exchange to send abroad to Chilean Embassies and Legations. I told him that I realized the difficulties that Chile was under; that I had sympathy for its problems, and that for that reason we had refused to present a number of matters to his Government. I pointed out, however, that a large proportion of Chile's exchange is monopolized by the French and Spaniards under their compensation agreements and that while we are not asking a similar compensation agreement for ourselves we would like, and felt we were entitled to, more

favorable consideration than American interests have heretofore received in the question of exchange. I said that Mr. Culbertson was acting under instructions in this matter and we very much hoped that the Chilean Government would accede to what he is endeavoring to obtain.

Mr. Cohen said that he would telegraph Señor Cruchaga in that sense.

F[RANCIS] W[HITE]

611.2531/60 : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, May 24, 1933—7 p. m.

25. Your 67, May 12, 4 p. m. This Government is taking a strong stand against the whole system of exchange controls and is urging other governments to take appropriate steps in order to remove this obstacle to trade. As long as there is any hope of practical achievement at London in this direction we do not wish to enter into any commercial arrangement recognizing exchange control.

If it turns out that no progress can be made at London in this regard we shall doubtless be prepared to consider a treaty with Chile along the lines you suggest.

HULL

611.2531/63 : Telegram

The Ambassador in Chile (Culbertson) to the Acting Secretary of State

SANTIAGO, June 3, 1933—2 p. m.

[Received June 3—2 p. m.]

76. Today in a lengthy note replying to my recent communications regarding American frozen credits, the Foreign Office states that if the principal nations at the London Conference agree to the elimination of compensation agreements Chile will gladly obligate itself to take a similar course. Pending the outcome of this Conference the note proposes the postponement of any negotiations looking to a compensation agreement but at the same time expresses a willingness to continue a study of the problem and to receive any proposal which we may wish to offer. The tone of the note invites affirmative action.

CULBERTSON

611.2531/66

*The Ambassador in Chile (Culbertson) to the Acting Secretary
of State*

No. 1481

SANTIAGO, June 7, 1933.

[Received June 15.]

SIR: I have the honor to refer to my despatch No. 1476 of June 3, 1933,²⁸ transmitting the Chilean note on the general subject of compensation agreements and frozen credits and to make additional comments and suggestions.

Reviewing the situation in the light of this recent development, the following two factors stand out as very definitely controlling any effort which may be made at this time to regulate the problem of the liquidation of frozen credits:

1. There is a serious shortage of foreign exchange in Chile. Last year the total available exchange, with imports at the lowest level in postwar years, was approximately 24 million dollars. Failing a sharp trade revival, the amount of exchange available this year is estimated to be about two millions less, with 36 million dollars needed to cover essential purchases and other requirements. Under these circumstances it is obviously too much to expect Chile voluntarily to pledge or earmark for the release of American frozen credits any substantial sum out of their meager resources of foreign exchange.

2. An agreement at the London Conference to cancel all compensation agreements would mean for the United States merely a removal of a discrimination against our trade in Chile. While this would eliminate a source of irritation it would not meet the immediate problem of how to make more exchange available for American creditors and for the purchase of American goods.

Considering the above figures and the several other determining factors, the evidence pointing to a compensation agreement as the one effective solution becomes impressively strong. It follows also that a remedy will be found only if we are prepared to take the initiative and insist upon some reciprocal arrangement to provide for the repatriation of our frozen credits here. On the assumption that ultimately some remedial action is contemplated, a policy of continuing the discussions to keep this eventuality before the Chilean authorities seems clearly indicated. Should the Department not be disposed to resort to measures involving the preëmption of exchange the only alternative then appears to be a private loan such as was arranged in connection with the "Roca Agreement" between Great Britain and the Argentine. This in turn would depend upon the decision of American business interests as to whether it would be worth while assuming this risk to

²⁸ Not printed.

obtain the release of their frozen credits and to maintain a fair volume of commerce with Chile.

After a full reconsideration of the immediate needs of American business interests in Chile, we have come to the conclusion that a modification of our approach to the general question is desirable. We should avail ourselves of the goodwill which exists in the Chilean Foreign Office at this time to do something. We therefore believe that we should proceed definitely with a proposal to the Chilean Government to negotiate an agreement along the lines indicated in despatch No. 1461, May 17, 1933. Our attitude of disapproval of compensation agreements can be taken care of by a statement at the time we proposed the convention to the effect that if compensation agreements are removed by an agreement at London, any such agreement between the United States and Chile will fall at the same time. In other words, we believe that the ultimate gains for American interests indicate affirmative action at this time on the assumption of a bilateral agreement which will be subsequently modified in the light of any decisions reached at London. This procedure has the great advantage of not losing any time or opportunity.

Respectfully yours,

W. S. CULBERTSON

611.2531/75

The Chargé in Chile (Norweb) to the Secretary of State

No. 1535

SANTIAGO, September 6, 1933.

[Received September 14.]

SIR: I have the honor to call to the Department's attention the following item which appeared in the morning papers:

"French-Chilean Compensations.

"Paris, Sept. 4 (Havas). It is said that Chile has placed an order for 12 locomotives with the firm of Blanc Misseron in the north of France.

"This order would be the first application of the import plan connected with the system of compensations proclaimed by M. Daladier in a recent note upon import licenses.

"It is well to add that Chile was the first country of South America to conclude an agreement of economic coöperation with France, a country which has imported nitrate for many years. (Special)."

The transaction referred to above has not yet been consummated but this threatened inroad on our trade in a field in which we are almost as predominant as in the automotive industry brings dramatically to the front the losing fight which our business is waging in Chile against countries having the assistance of compensation agreements.

The Embassy has kept the Department currently informed concerning the possibilities of working out some arrangement which would bring relief to our business in Chile. As we have been able to watch these agreements in actual operation, certain facts stand out more and more clearly :

1. The effect of these agreements is gradually to divert from us a larger percentage of our trade than was originally considered possible.

2. After a year of negotiation, it is apparent that the Chilean Government, on the basis of most-favored-nation treatment, is not disposed to do anything towards relieving our commerce unless it is obliged to do so through a hint on our part that ultimately measures of protection will have to be taken by the United States.

3. Our diplomacy is now in a weak position to bring effective pressure to correct the situation.

As things stand, the Chilean Government fully admits our right to receive treatment equal or equivalent to that it accords to other countries. Furthermore, it avows its willingness to enter into a compensation agreement and it even invites us to set forth our desires on this subject in a form which may serve as a basis for negotiation. However, as we have advanced no definite or specific proposal and since for over a year the Chilean Government has not been willing unilaterally to undertake to set aside exchange for our needs, the entire question has not risen beyond the level of the admission of general principles by both parties. Some months ago the Government invited us in writing to enter into an agreement. More recently, however, it has shown little interest in the problem aside from suggesting that a solution might possibly be found in connection with the negotiation of a permanent commercial treaty. In a measure this change may be attributed to the pique felt here that Washington is working on agreements with Colombia and the Argentine ²⁷ before taking up the suggestions made by Chile for a formal commercial treaty.

The Embassy fully appreciates the distaste with which the Department views the principle of compensation agreements. It seemed at one time as though there might be some hope that liberal world opinion might be marshalled in sufficient strength to create a sentiment in the leading commercial powers which would force the liberalizing or cutting down of trade barriers. It is clear, however, that unfortunately such has not been the case and that to further oppose this world tendency is merely to swim against a current too strong for any one nation to divert. As far as Chile is concerned, it is apparent that whatever lip service foreign nations are giving to the idea of doing away with trade barriers, in actual practice they are intrench-

²⁷ See *post*, pp. 217 ff., and vol. iv, pp. 642 ff.

ing themselves more and more in special arrangements which facilitate their trade and repatriate their frozen assets. To-day France, Belgium, Sweden, Spain, Czechoslovakia, Germany, Italy, and Holland have either entered into compensation agreements or are about to conclude arrangements of this nature. England too which heretofore has been as skeptical of the soundness of compensation agreements as has the United States now has definitely joined the others. Only yesterday, I understand, the Foreign Office received a formal demand that in the matter of foreign exchange, Great Britain be given not less favorable treatment than that accorded to other countries, adding significantly, that to this end the British authorities were prepared to set aside a proportionate share of the proceeds from the sale of Chilean products in the United Kingdom.

As each new nation is added to the list our equity in Chilean business becomes less. The Department may find it unpalatable to negotiate an arrangement of this sort but it must be frankly pointed out that our policy can no longer remain negative. Without some definite agreement this Embassy is not in a position to do anything tangible toward relieving American interests in Chile or even toward preserving trade which is normally ours. On the other hand, should it be decided in Washington to take a positive position, there is every indication that the Chilean Government would fully meet our desires and even that the scope of the agreement could be widened beyond commercial credits to include some measure of relief for our utility companies, for the liquidation of the retirement funds of Americans, for foreign currency bank deposits and perhaps even bank advances. Moreover, if we could offer any prospects of an improved market for Chilean goods in the United States, to that extent we would unquestionably be in a position to secure a larger share of the Chilean market. This idea of enlarging the scope of compensation agreements to provide for freer exchange of goods has, we understand, already been included in the agreement under negotiation with Italy. At the latter's insistence, provision has been made that the sacks for shipping nitrate to Italy shall be bought in that country and both sacks and the nitrate transported on Italian vessels. Chile hopes to sell as much as 400,000 tons of nitrate within the next year in the United States and it would go far to prevent any action on our part which would jeopardize this lucrative market. Nitrate sales of this volume we estimate would make available some \$3,500,000 for compensation purposes.

It would be an understatement to say that American business in Chile is getting restive. It would be nearer the truth to say that it is about to explode and is becoming deeply resentful of inaction. Policy must be determined, of course, in Washington but this Embassy would

be delinquent did it not endeavor to give the Department clearly and objectively the benefit of its close-range view of the situation in Chile. The Department will not be in a position later on to escape the censure of American business which sees with increasing bitterness the nationals of other countries being afforded relief by their respective governments. Furthermore, at a time when we are making such heroic efforts to maintain prices and increase business in the United States we should take such steps as are clearly indicated to increase or maintain our foreign business. To do so would appear thoroughly consistent with the internal measures we are now taking for the economic rehabilitation of the United States.

As of assistance to the Department, there is enclosed a timely study of this problem which Mr. Bohan, the Commercial Attaché, has prepared in conjunction with the Embassy.²⁸ This study has been worked up not only with a view to suggesting a solution but, through the presentation of the actual trade figures, to show the effects which the whole series of compensation agreements is having on Chilean commerce.

As a further enclosure to this despatch there is transmitted a copy of a memorandum of a conversation held recently between members of the British Embassy and the President of the Chilean Exchange Control Commission²⁸ on the subject of the discrimination and other disadvantages to British commerce arising out of the unfair tactics of the Control Commission.

Respectfully yours,

R. HENRY NORWEB

825.5151/120

The Chargé in Chile (Norweb) to the Secretary of State

No. 1560

SANTIAGO, October 25, 1933.

[Received November 2.]

SIR: I have the honor to report that since my despatch No. 1535 of September 6, 1933, various American interests, seizing upon a favorable moment in the Chilean financial situation, have taken the frozen credit problem into their own hands and by means of private deals with the Government have liquidated within the short space of a few weeks at least \$2,000,000 of their blocked funds.

The details of the negotiations that resulted in the repatriation of these funds are quickly told. In the last three months Chilean currency has appreciated 100% and dollars can now be bought for about 25 pesos instead of at the former rate of 50 pesos. At this relatively reasonable level, foreign interests began to seek means for obtaining

²⁸ Not printed.

foreign exchange in order to move their funds and the idea was conceived of offering a hard-pressed government a premium of 15 to 20% on all money transferred out of the country. The bait proved irresistible and it was not difficult to obtain the cooperation of the Finance Minister and through him, that of the Exchange Control Commission. For all the Government's assistance, however, the plan would not have been possible if American business, in its eagerness to move funds from Chile, had not been willing to pay for the privilege at a rate $2\frac{1}{4}$ times the prevailing rates for commercial credits under compensation agreements, and if the recent improvement in export trade conditions had not, for the first time in two years, provided foreign exchange substantially in excess of current requirements.

All transactions under this arrangement are secret as they are in a sense extra-legal. This aspect has caused several American firms to hesitate to avail themselves of the opportunity, but the only danger of future repercussions would seem to be in the remote possibility of a Congressional investigation and even in that event the attack would probably center on the disclosure of Government connivance. The principal companies involved are the General Motors, National City Bank of New York, All America Cables, the International Telephone and Telegraph Company, the local subsidiary of the Standard Oil Company of New Jersey, and, among British firms, the Shell-Mex, Chile, Limited; but smaller enterprises and private individuals with blocked funds also have been obtaining exchange on similar terms.

In its more diplomatic aspects the action of the Government indicates a disposition to be more reasonable. Recently the Finance Minister spoke to an American bank representative of his desire to avoid the threat of compensation agreements with the United States and Great Britain. Beyond a doubt, this attitude has influenced him to some extent in agreeing to these private deals with the principal holders of blocked funds. Moreover, to my knowledge, American and British nitrate producers have urged upon the Minister the importance of doing something to remove the danger that nitrate shipments to the United States and the United Kingdom may be blocked to take care of the frozen credit situation. My British colleague also informs me that to his formal demand for equality in the matter of foreign exchange, referred to in my despatch No. 1535 of September 6, 1933, the Government has recently replied that it is actively studying the matter and hopes, within the near future, to make a definite proposal to the British Government with a view to affording relief to frozen commercial credits and providing adequate exchange for trading purposes.

While these signs are encouraging, nevertheless, promises and extra-legal expedients cannot be counted upon to afford a permanent basis

for the settlement of this vexatious problem. The exodus of the funds in question, by relieving some of the pressure for a compensation agreement to repatriate frozen credits, has served to improve the tactical situation and if the process is continued our task with the Government will be made considerably easier. However, we cannot tell if the trend of exchange will remain sufficiently favorable to permit this procedure to continue, and our satisfaction at the coöperation between the Government and American business interests in the question of the transfer of frozen credits must not cause us to lose sight of the importance of a more liberal attitude on Chile's part in supplying the exchange necessary for the needs of our current commerce. Neither must we overlook the problem of obtaining the transfer of the retirement funds of those individuals, who by force of circumstances, are not in a position to bargain with the Government for the return of the foreign currency due them.

Respectfully yours,

R. HENRY NORWEB

611.2531/75

The Secretary of State to the Chargé in Chile (Norweb)

No. 1550

WASHINGTON, November 1, 1933.

SIR: I have received your despatch No. 1535, dated September 6, 1933, in which you reviewed the increasingly prejudicial situation now confronting American trade in Chile as a result of continuing diversion of available foreign exchange in that country to the nationals of those countries having so-called compensation agreements with Chile. I take this opportunity to commend you for your able and effective presentation of this situation.

I have not been unmindful of the discriminatory treatment accorded American interests in Chile, which you have described, and have been seriously preoccupied by it. Studies which have been made in the Department of the whole system of compensation agreements, however, convince me that the fundamental objection entertained by this Government to such agreements which it regards as obstacles in the way of recovery from the present world depression, is sound. From the viewpoint of broad general policy, moreover, American trade and investment capital throughout the world stand to lose far more from the application by this Government of the compensation agreement idea than they could gain by its adoption.

I share your view, however, that something should be done immediately for the interests concerned. Accordingly, unless you perceive some objection thereto, you may approach the Chilean Government and suggest that, pending the opportunity to institute negotiations

for a reciprocal trade agreement similar to those projected by the United States with certain other Latin American countries, and under which the United States in exchange for tariff concessions by Chile would undertake principally to retain Chilean nitrate and iodine on the free list, a provisional agreement in regard to the allotment of exchange be concluded. It seems probable that the Chilean Government would be unwilling to grant more favorable foreign exchange treatment unless this Government were prepared to deal with the underlying trade factors upon which the supply of foreign exchange depends. The provisional agreement would expressly state, therefore, that it is concluded pending the opportunity to negotiate a definitive trade agreement, and that the provisional agreement should remain in force until the definitive trade agreement shall have been concluded, subject to the right of termination by either party on 30 days' notice.

The provisional agreement above referred to should supplement the existing agreement of September 28, 1931. The present agreement merely provides for most-favored-nation treatment. The proposed supplementary agreement should interpret this obligation as being applicable to the allotment of foreign exchange. If the new agreement has the effect merely of placing such a construction upon an existing obligation Chile will be in a better position to answer the representations of third countries whose interests might be affected.

It would be necessary, of course, to define precisely what constitutes most-favored-nation treatment as applied to exchange control. Three possible bases suggest themselves upon which exchange might be allotted, in accordance with the most-favored-nation formula.

(1) *The allotment of the same absolute amount of exchange to each exporting country.*

The objection to this basis is that the need for foreign exchange varies for each country according to the amount of its customary exports to Chile (as well as of course the amount of funds due to the nationals of various countries as service on Chilean bonds). The allotment of the same amount of exchange to a country whose customary exports to Chile are large, as that allotted to a country whose exports are small, would more than meet the requirements of the latter while resulting in serious hardship to exporters of the former. The same argument applies in the case of the allotment of exchange in connection with payments due on the bonded debt, a subject which will not arise until such time as that service is resumed.

(2) *The allotment of exchange on the basis of Chile's exports to each country.*

Under this criterion the United States would be allotted an amount of exchange constituting a percentage of Chile's total exports to the

United States, which percentage would not be less than the corresponding percentage granted to any other country. Thus, if the exchange allotted Great Britain, for example, were 80 per cent. of Chile's exports to Great Britain, the United States would be allotted exchange equal to 80 per cent. of Chile's exports to the United States.

The objections to this criterion are the same as that mentioned under (1) above. Moreover, the effect of making the amount of exchange allotted to each country dependent upon Chile's exports to that country would tend to force the balancing of trade between Chile and each foreign country, and, by impeding triangular trade, would tend to reduce its total amount. Since Chile has at present a favorable balance of trade with the United States, this country would tend to benefit more than others from the use of this criterion. But such a criterion seems to us unsound in principle and its adoption, though possibly resulting in relative benefit to the United States in the case of Chile, would work to its serious disadvantage in trade with other countries, as for example, Argentina.

(3) *The allotment of exchange in proportion to Chile's customary imports from each country.*

Under this criterion each exporting country would receive a share of the available exchange proportionate to the share of Chile's imports which it would normally supply. This criterion is subject to neither of the objections mentioned under criteria (1) and (2). The exchange made available in payment for imports from each country would under this plan be proportionate to the needs of each. The effect moreover would be to promote rather than to discourage triangular trade since there would be no tendency under such a plan to force a balancing of trade between Chile and each foreign country separately.

Accordingly, if Chile agrees in principle to the proposal to make the most-favored-nation clause applicable to the allotment of foreign exchange, the share of the total available exchange to be allotted to the United States would be equal to a percentage of Chile's imports from the United States in a representative period. It is suggested that the four-year period 1928-1931, inclusive, be used for this purpose since it includes two years of prosperous business conditions and two years of depression. Of the total importations into Chile during the four-year period under reference the United States supplied 32.5%. The provisional agreement, therefore, should provide that 32.5% of the exchange currently available be allotted to the United States. Under this agreement Chile would accept the obligation of making available to all American interests that proportion of the total available exchange.

In addition to provisions for the allotment of exchange to pay for past and future imports from the United States it is believed that the proposed provisional agreement should contain a stipulation whereby in the allotment of exchange, precedence would be given to the liquidation of funds deposited in the Caja de Retiro. These obligations of the Caja de Retiro are relatively small and it is obviously desirable on humanitarian grounds to return them as soon as possible to the persons entitled thereto, many of whom are in straitened if not desperate circumstances. It is understood that disbursements are being made currently by the Caja de Retiro to Chilean nationals. If this understanding is correct you should state emphatically to the Chilean Government that this Government perceives no justification for discrimination against foreign nationals in a matter of this nature. If the Chilean Government should say that it is impossible to make additional disbursements because of the state of the Caja's funds, you may suggest that that Government advance to the Caja the necessary money required to make these payments which are urgently needed by American citizens. In this connection I realize that the provision concerning the Caja de Retiro in the attached agreement is different in character from the agreement as a whole which deals otherwise with most-favored-nation treatment. If the Chilean Government, therefore, should object to its inclusion in the attached agreement, you may agree to its adjustment in a separate exchange of notes.

There is enclosed a draft of a provisional agreement embodying the provisions outlined above. I desire that you study the draft carefully and if you are satisfied that it represents a feasible basis for dealing with the question presented, you may submit it to the Chilean Government. If you have any doubts concerning the expediency of this procedure or any suggestions concerning the provisions of the attached draft agreement, you should at once communicate them to the Department.

In the event that the Chilean Government refuses to adjust this matter by means of the contemplated provisional agreement you are authorized to make strong representations to the Chilean Government regarding the treatment of American interests in the allotment of foreign exchange and, unless you perceive objection thereto, to request that on the basis of Chile's imports from the United States in the four-year period, 1928-1931, inclusive, not less than 32.5% of the exchange currently available be allotted to American and other interests. You may also request that precedence be given to the liquidation of funds deposited in the Caja de Retiro. You should also request that you be informed at regular intervals of the amount of foreign exchange allotted to the various national and foreign interests by

the Chilean Exchange Control Commission, as well as of the amounts blocked in favor of other nations by so-called Compensation Agreements.

It is evident that on the basis of any of the criteria outlined above, the United States is being subjected to discriminatory treatment. The United States Government believes it only fair that the Chilean Government should recognize that fact and cease discriminating against American interests. Should such discrimination not cease, this Government will be forced to consider taking appropriate steps to protect its interests.

Very truly yours,

CORDELL HULL

[Enclosure]

Draft of Provisional Agreement Between the United States and Chile Concerning the Allotment of Foreign Exchange, Supplementing the Provisional Agreement of September 28, 1931 ^{29a}

Referring to the provisional agreement concluded between the Governments of the United States and Chile by notes exchanged September 28, 1931, providing for most-favored-nation treatment in commercial matters, it is understood and agreed that the most-favored-nation clause is applicable to the allotment of foreign exchange under the system of foreign exchange control now or hereafter maintained by the Government of Chile.

Accordingly, the foreign exchange allotted by the Government of Chile for use in payment of present or future obligations created by importations of merchandise from the United States and of demands for foreign exchange by American citizens and interests in Chile, shall not be less than thirty-two and one-half per centum of the total foreign exchange created by Chile's international transactions, including sums blocked by foreign governments as a result of compensation agreements, during each quarter of the calendar year, the said thirty-two and one-half per centum being the proportion of the imports of foreign merchandise into Chile obtained from the United States during the four-year period 1928, 1929, 1930, and 1931.

At the end of each quarter of the calendar year the Government of the United States will be informed of the amounts of foreign exchange allotted during that quarter to the various national and foreign interests by the Chilean Exchange Control Commission as well as of amounts retained abroad under compensation agreements.

The Chilean Government will take the necessary steps to have released the funds which have been deposited by American citizens in

^{29a} For correspondence concerning the provisional agreement of September 28, 1931, see *Foreign Relations*, 1931, vol. 1, pp. 919 ff.

the Caja de Retiro, and, in allotting foreign exchange, will give precedence to persons entitled to the receipt of those funds.

It is understood that negotiations will be instituted as soon as practicable with a view to concluding a mutually beneficial trade agreement between the two countries. In the meantime, and pending the conclusion of the trade agreement, it is understood that the Chilean Government will not enact any measures which would have the effect of putting the trade of the United States in a more disadvantageous position than it is at present and that the United States will continue to admit Chilean nitrate and iodine free of duty.

The present provisional agreement shall remain in force pending the conclusion of the aforesaid trade agreement, subject to the right of either Government to terminate the present agreement on 30 days' notice.

611.2531/82

The Chargé in Chile (Norweb) to the Acting Secretary of State

No. 1582

SANTIAGO, November 18, 1933.

[Received November 27.]

SIR: I have the honor to refer to the Department's instruction No. 1550 of November 1, 1933, enclosing a draft proposal for working out an agreement to give the United States most-favored-nation treatment in allotment of exchange.

Needless to say, the Embassy was most gratified to receive this instruction which should place us in a position to force the Chilean Government to afford adequate relief to our long-suffering and patient business interests which have been discriminated against by virtue of compensation treaties and placed under serious disadvantages by the nationalistic attitude adopted by the Chilean Government.

In my opinion, the broad principles on which the Department's draft agreement is based should provide a practical basis on which an arrangement satisfactory to our commercial interests in Chile can be worked out. Since the Embassy's recommendations made in its despatch No. 1535 of September 6, 1933, international monetary conditions have greatly changed and Chile's exchange policies have been modified to some extent, so that in certain respects the problem of negotiating a feasible accord has been much simplified, whereas other aspects of the problem may make it desirable for us, as a practical matter, to make some modifications in our proposal.

As stated in my telegram No. 105 of November 15, 7 p. m.,³⁰ after giving the Department's instruction careful study, I discussed the proposal, on the 15th, with Mr. Vergara, the Undersecretary of Foreign Affairs and the officer directing negotiations in these matters.

³⁰ Not printed.

Mr. Vergara's general reaction was not hostile and he readily admitted the fairness of our commerce being given as much consideration as was being accorded to other countries. It was apparent, however, that he was greatly impressed with many difficulties and he immediately advanced certain objections, some of which merely involved matters embarrassing or difficult for Chile and which may be disregarded as valid arguments, and others which, in my opinion, do represent certain practical considerations which we will have to take into account. Mr. Vergara's first reaction was that all of Chile's imports had so drastically declined, that under the four-year basis we proposed, we would receive a disproportionate amount of the available exchange; that our basis involved three good years and one bad. He added that while he did not have available statistics on the matter, he was afraid that if exchange were granted us on the 32.5% basis, it would preëempt such a large share of all the exchange as to raise serious difficulties with other countries; that our proposal might require an entire readjustment of Chile's international economic relations, necessitating a revision of existing compensation treaties and the laws governing the control of exchange and foreign commerce. He was perturbed at the possibility that our plan would result in a scaling down of Chile's European markets and said that it would be necessary for him to go over the question very carefully, particularly from the statistical angle, as the idea of basing an arrangement on imports was, to him at least, both original and disturbing. Mr. Vergara also expressed considerable doubt as to the manner in which the frozen credit liquidations at arbitrarily low rates equivalent to those given the European countries could be applied in the case of American credits unless the nitrate industry were required to return to Chile a portion of the funds derived from the sale of nitrates in the United States. Without commenting concerning the nitrate interests involved I, of course, countered this statement with the reply that we were entitled to most-favored-nation treatment, a principle which Chile had admitted and that the problem of giving us such treatment was Chile's and not ours. Our conversation ended with the understanding that Mr. Vergara would discuss the matter in a very short time again, after he had had an opportunity of looking into the necessary statistics and getting a clear idea of the various factors involved.

As a result of my conversation I feel that in spite of the various objections which the Foreign Office has raised, we have made real progress and it is apparent to the Chilean Government that some definite and practical relief will have to be afforded to our business. I am not inclined to take too seriously all of the difficulties on which Mr. Vergara laid so much stress.

While I share the Department's opinion that from our point of view, imports represent a sounder basis for the allotment of exchange

than blocked exports, Chile's external economy is so tied up in the compensation system that regardless of good will it will be a difficult problem for the Government to find or control an appreciable amount of exchange at official rates for our needs.

As matters stand now Chile's exchange is largely earmarked through blockage arrangements. The chief sources from which Chile can obtain exchange for the liquidation of frozen commercial credits at rates equivalent to those accorded countries having compensation agreements are: the copper companies (see enclosure No. 1²¹), small returns from iron ore and miscellaneous agricultural exports. As Chile's currency has appreciated exports have become less profitable so that while the Government originally required agriculturists to turn over to it 20% of the sales value abroad at official rates, the amount has now been reduced to a nominal figure of 1% or 2% in most cases.

Export drafts cancel themselves since the Government is now permitting importers to acquire drafts against corresponding exports at the free market rate. While facilitating imports it does not constitute a source of exchange to the Government. Gold extraction is advantageous to the Government but does not create exchange at official rates since the Government must pay for gold at rates commensurate with the value of the peso measured in terms of gold currency countries.

In short Chile has placed itself in a position where it can only accord us most-favored-nation treatment on exchange matters by a revision of the entire compensation system which has been built up with other countries or by balancing in some form the exchange accorded us against its exports to the United States. The first expedient will be difficult since to adopt it would jeopardize Chile's European markets, and the alternative has, among others, the disadvantage from our point of view of subjecting our copper and nitrate industries to bear the brunt of furnishing this special exchange in addition to the sacrifices which these industries are called upon to make in connection with compensation arrangements. No matter what form the agreement takes, it will be difficult to prevent Chile from looking to the proceeds of nitrate sales in the United States to supply the exchange.

In view of the changed conditions since our original recommendations which have eased the strain on our current business needs, I am somewhat inclined to feel that as our negotiations develop, instead of insisting on according us a percentage of exchange at the most-favored-nation rate for the needs of all our commerce including both frozen credits and current needs, we may find it desirable to ask for

²¹ Not printed.

preferential exchange to take care of our frozen credits and obtain a formal agreement that our current business be allowed to finance its needs in the export draft market freely without any restrictions. Current business has adjusted itself fairly well to present exchange levels which, at around 25 pesos to the dollar or less, represent in my opinion a fair equilibrium between import costs, business expenses incurred in pesos, and selling price in Chile. In addition to the above concessions we should, I think, use the present favorable situation to obtain definite assurances in regard to the other problems which present such difficulties. Among these, for example, are the re-export of consignment merchandise, debenture interests and dividends on investments, amounts due insurance companies, interest and commission due banks (but not capital). It is possible the Department intended to comprise these items in the scope of the agreement but as this type of credit has not been included in agreements which Chile has made with other countries it will be essential for us to have at the outset a clear understanding on these categories which are of such special concern to the United States.

In my discussions I have of course not voiced or hinted at any of the difficulties which I foresee nor have I admitted any of the objections which the Chileans have advanced, and I shall continue to press for the obtention of exchange on the basis suggested by the Department until I have received the Department's additional views in the light of this despatch.

In my discussions I have not deemed it desirable to raise the question of the possible imposition of nitrate duties in the United States. The Chilean Government realizes at last that it has a responsibility to make an arrangement to afford fair treatment to our business interests and it is now a question of the form that this will take. As the British are now also pressing for a gentlemen's agreement on exchange the Chilean Government is now forced to consider giving satisfaction to its two most important markets. This will act as a strong lever to make Chile weigh the advantages of modifying its commercial relations with the smaller markets in order to save the bigger.

Respectfully yours,

R. HENRY NORWEB

611.2531/82 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Sevier)

WASHINGTON, November 29, 1933—noon.

51. Your despatch No. 1582, November 18, 1933, Department desires you to take earliest opportunity accompanied by Norweb who is famil-

iar with previous conversation to press for the general principles contained in the draft agreement. The Department is not disposed to press either for the percentage suggested, which it regards rather as a basis for discussion, nor for the conclusion of a formal most-favored-nation agreement. It does however insist that the present and long-continued *de facto* discrimination against American commercial interests in the matter of exchange treatment, cease. The Department is not deterred in its viewpoint by the necessity for Chile to modify its present blocking agreements in order to deal fairly with American needs; it expects such to be the case, and cannot accept the view that those agreements should operate to perpetuate the priority now given to other national interests.

For your information the Department does not desire to allocate as between frozen funds and current business whatever exchange may ultimately be made available to American interests. It feels however that the holders of frozen funds, which it understands have already been materially reduced, can only expect gradual reduction, such as is provided in agreements drawn up between the private holders and the Brazilian Government.³² Emphasis should be placed on providing of exchange for current trade requirements.

It seems preferable not to complicate the present discussions for the time by the suggested injection of the additional problems mentioned on page 6 paragraph 1³³ of your despatch under reference.

The Department is not certain of the relation between the type of arrangement suggested and special arrangements which the copper or nitrate companies may have made with the Chilean Government as regards the disposition of exchange arising from their sales (*a*) in the United States, (*b*) in other countries. Please let us have your views on this.

PHILLIPS

825.51/643

The Ambassador in Chile (Sevier) to the Acting Secretary of State

No. 5

SANTIAGO, November 29, 1933.

[Received December 7.]

SIR: I have the honor to refer to this Embassy's despatch No. 1582 of November 18, 1932 [1933], concerning the granting by Chile of exchange on a most-favored-nation basis. In this connection the Department may be interested to know that the French Minister here has informed me that, acting under instructions from his Government, he discussed with the Chilean Government the subject of the resumption

³² See pp. 30 ff.

³³ See paragraph beginning "In view of the changed conditions . . .", p. 144.

of the service on Chilean loans floated in France, making the suggestion that some arrangement be embodied in the compensation treaty for this purpose. As a result of the Chilean-French compensation treaty, about 60% of the total of frozen credits belonging to French citizens have been deposited in the compensation account. The action taken by the French Minister is a forehanded and astute move looking toward the continued use of the French compensation treaty, after the liquidation of the frozen credits, to cover at least a part of the service on Chile's external debt in francs.

Respectfully yours,

HAL SEVIER

611.2531/83 : Telegram

The Ambassador in Chile (Sevier) to the Acting Secretary of State

SANTIAGO, December 2, 1933—noon.

[Received 1:40 p. m.]

108. Department's telegram No. 51, November 29, noon. I presented yesterday a formal note containing a copy of the Department's draft agreement. I set forth briefly our viewpoint concerning the discrimination which our commerce has been suffering and added that we fully expect that the Chilean Government will give it prompt consideration. The Under Secretary read the note and the draft agreement and assured me that today he would discuss the question carefully with Ross, Acting Minister for Foreign Affairs, and would arrange an interview early part of next week. I have no indication what satisfaction the Chilean Government will offer us but I feel it has been impressed with the earnestness of our intention to obtain fair treatment for our commerce. Copy of my note air mail today.

Last paragraph of your telegram is not quite clear. However, for the Department's information the proceeds of nitrate sales in the United States now remain there for canceling previous bank advances. Unblocked portions in other countries available for needs of the industry; frozen credit proportion returned at treaty rate and new business proportion at export draft rate. Disposition of proceeds of copper sales in practice governed by special and extra legal arrangements.

SEVIER

611.2531/84 : Telegram

The Ambassador in Chile (Sevier) to the Acting Secretary of State

SANTIAGO, December 9, 1933—1 p. m.

[Received 5 p. m.]

109. Referring to my telegram No. 108, December 2, 2 p. m. [*noon.*] Because of Chilean holidays interview with the Acting Minister for

Foreign Affairs has not been arranged. However, the Embassy again discussed the problem this morning. We reiterated our views but the Under Secretary said that the American proposal is unacceptable even as a basis for discussion and held out little hope of a counterproposal. He again stated that Chile is willing to give us a compensation agreement admitting, however, that this is unacceptable to us. He finally said he hoped the Minister would suggest some solution but felt it was almost impossible for Chile to work out a plan based on the principle of a percentage of imports. Later conversations may develop something more constructive but it seems clear that Chile is unwilling to give us satisfaction along the line suggested by the Department, probably discounting the possibility of retaliation because of the effect which restrictions placed on nitrate might have on our own interests in that industry. If after my conversation on Monday the Chilean attitude continues purely negative, I intend to state specifically that if an acceptable solution is not proposed my Government will be forced to consider taking appropriate steps to protect its interests.

SEVIER

 611.2531/84 : Telegram

The Acting Secretary of State to the Ambassador in Chile (Sevier)

WASHINGTON, December 13, 1933—5 p. m.

54. Your telegram 109, December 9, 1933, 1 p. m. We would be glad to have a brief telegraphic report of your interview last Monday with the Acting Foreign Minister.

If you have not already made the statement contained in the last sentence of your telegram under acknowledgment the Department feels that it would be wise to refrain from doing so until you have heard further from the Department.

PHILLIPS

 611.2531/87 : Telegram

The Ambassador in Chile (Sevier) to the Acting Secretary of State

SANTIAGO, December 13, 1933—6 p. m.

[Received 6:06 p. m.]

110. Referring to my telegram No. 109, December 9, 1 p. m. In an interview with the Acting Minister for Foreign Affairs today, he appeared anxious to work out some plan which would give us satisfaction. As usual the great difficulties to Chile were pointed out but for almost the first time the Foreign Office evinced more than a merely negative attitude. We are to discuss tomorrow technical features.

SEVIER

611.2531/88 : Telegram

The Ambassador in Chile (Sevier) to the Acting Secretary of State

SANTIAGO, December 14, 1933—6 p. m.

[Received 7:05 p. m.]

111. With reference to the Department's telegram 54, December 13, 5 p. m. We had a further discussion with the Under Secretary today and left detailed figures concerning American frozen credits and current trade which he is going over with a view to working out a proposal. I feel that we are making some progress and that the Government is now trying to find a way of giving us some satisfaction.

It has not been necessary to make the statement referred to in the last sentence of my telegram 109.

SEVIER

611.2531/89

The Ambassador in Chile (Sevier) to the Acting Secretary of State

No. 18

SANTIAGO, December 15, 1933.

[Received December 26.]

SIR: I have the honor to refer to my Despatch No. 9 of December 2nd ³⁴ and subsequent telegrams on the subject of foreign exchange for American commerce, and to report the developments which have taken place.

Since no action was taken on the formal note which I left with the Foreign Office on December 1st, Mr. Scott ³⁵ called on the Under Secretary on December 9th in order to keep negotiations active and to expedite the interview with the Acting Minister for Foreign Affairs. A memorandum of the conversation which took place at the Foreign Office is enclosed.³⁴ It will be noted that Mr. Vergara's attitude appeared unresponsive and that he held out little hope that his Government would seriously consider working out a plan within the lines suggested which would be acceptable. As the months of discussion with the Chilean Government produced no positive attitude on its part other than to offer the same type of compensation treaty which Chile knows is repugnant to the United States, I felt that the point had virtually been reached where it would be desirable to make the strong representations which the Department contemplated as a possibility in the suggestions and authorizations embodied in the last two paragraphs of Instruction No. 1550, November 1, 1933.

³⁴ Not printed.

³⁵ Winthrop R. Scott, Second Secretary of Embassy.

Because of Chilean holidays and the reception to the Diplomatic Corps which I gave on Monday, December 11th the next few days did not offer an appropriate opportunity for discussions. However, on December 15th, during the course of a call which was made on Mr. Vergara in connection with certain matters relating to the Montevideo Conference,³⁷ the Under Secretary, of his own volition, raised the question of our exchange problems and requested Mr. Scott to talk over the matter immediately with Mr. Ross, the Acting Minister for Foreign Affairs. A memorandum of the conversation is enclosed.³⁸ This interview indicated, for the first time, a less negative attitude on the part of the Chilean Government and an interest in asking definite questions as to our problems of frozen credits and current commerce. Moreover, a desire was evidenced to try to work out something within the lines contemplated in our proposal which would be the basis, at least, for affording some satisfaction on the question of exchange. As in former discussions, stress was laid on the difficulty of freeing any exchange for commerce at a rate lower than the free market rate without obtaining such exchange by blocking a definite amount of Chilean exports to the United States. When it was again pointed out that our Government was opposed to a compensatory system, which did not conform with our foreign commercial policy, Mr. Ross did not counter that nothing could be worked out on other lines but asked for certain details concerning the amounts of our frozen credits and the general balance of trade between Chile and the United States.

The next day Mr. Scott, accompanied by Mr. Bohan, had another interview with Mr. Vergara and left revised estimates of the amount of American frozen credits in Chile and a statement of the balance of trade for the year 1932 and the first nine months of 1933 (Reference Department's telegram No. 52, December 4, 6 p. m., 1933³⁸). It was explained to Mr. Vergara that possibly estimates of American frozen credits may be high since considerable sums recently have been released through purchases of export drafts at the free market rate, which transactions although in a sense extra-legal, had been countenanced by the Chilean Government. The Department will recall that the estimates made in April, 1933, by Mr. Ackerman, the former Commercial Attaché, indicated that frozen credits were about \$20,000,000. Since that time perhaps \$3,000,000 has been repatriated. On the other hand certain items of frozen credits have accrued during those months so that the present estimated total of \$19,200,000, although probably a little high, is not inconsistent with the study prepared by Mr. Ackerman.

³⁷ For correspondence concerning the Seventh International Conference of American States, held at Montevideo, December 3-26, 1933, see vol. iv, pp. 1 ff.

³⁸ Not printed.

After discounting the difficulties of obtaining a satisfactory arrangement and the probability that anything which may be offered will fall far short of what we would like to have, it is felt that Chile now realizes its responsibilities and that progress has been made. One helpful factor has been that the British are actively negotiating for an arrangement to afford them fair treatment on exchange, following out a basis somewhat similar to ours, that is, they are opposed to a formal compensation arrangement but are seeking definite guarantees that the Chilean Government will allow the repatriation of British funds at a reasonably favorable rate. Their plan apparently contemplates not pressing for exchange on as favorable a basis as the very preferential rate created by blocked nitrate sales in France which, as the Department will remember, is based on a figure of 65 pesos per hundred francs, or roughly 11 pesos to the dollar. They, however, hope to get exchange freed on an average rate between this special rate and the rates obtaining in the free market. The British are trying also to embody in their understanding some provision which will facilitate payment in pesos for their Chilean debtors and which also will have the effect of exerting some pressure on them to make these peso payments. It is difficult to see just how the last feature can be woven into an international arrangement but perhaps some simple declaration on the part of the Chilean Government can be used to accomplish this purpose. The British Commercial Attaché estimates that England still has about 1,000,000 Pounds of frozen credits in Chile.

The Under Secretary has stated that during the weekend he will go over with the Chilean Commercial Adviser the figures which the Embassy supplied him and that he will arrange to discuss the question with us during the first part of next week. I feel that our policy must be one of continually pressing the Chilean Government, making it keenly conscious of our consistent and earnest interest in the matter, and I am hopeful that we will obtain some definite suggestion from the Foreign Office during the next few days.

Respectfully yours,

HAL SEVIER

611.2531/90

The Ambassador in Chile (Sevier) to the Acting Secretary of State

No. 25

SANTIAGO, December 27, 1933.

[Received January 4, 1934.]

SIR: I have the honor to refer to my despatch No. 18 of December 15, 1933, and to report the progress of our negotiations with the Chilean Government for a provisional agreement concerning the allocation of exchange for the needs of American commerce.

With a view to keeping in touch with the Foreign Office on certain technical and statistical details in connection with the studies which the Foreign Office and the Embassy have been making on exchange matters, Mr. Scott and Mr. Bohan have had several interviews during the last few days with Mr. Vergara, the Under Secretary. A definite counterproposal has not yet been worked out although it is gratifying that the Government is actually working on a definite plan and is not merely marking time as it has so often done in the past.

As stated in my previous despatch, the British are also pressing for an understanding somewhat along the general lines that we are seeking and for this reason the Chilean Government is examining with unusual care any proposal which it may make to us since it will have to offer satisfaction in a more or less similar form to the British Government. Yesterday an interview took place with Mr. Vergara which is reported herewith as Enclosure No. 1,⁴⁰ in which the Under Secretary tentatively made the rather interesting suggestion that perhaps we might feel that Chile could afford us satisfaction by removing all exchange restrictions to our commerce. Mr. Vergara made it plain that this was merely a suggestion for study and should not be taken as a definite commitment. To our objection that the plan would not do away with the discrimination to which our commerce is subjected because of the special exchange rates obtained by other countries under compensation agreements, Mr. Vergara replied that if England and the United States were placed on an entirely free basis as far as exchange control were concerned, the exchange rates governing the "A" or current business accounts in the compensation agreements would not be set at fictitiously low rates but would be set each day by the Central Bank at rates equivalent to the free market quotations. Mr. Vergara argued that our commerce would not be subject to discrimination under this arrangement but he did not, however, go into the question of the preferential rates at which frozen assets are being liquidated under compensation accounts. While it is obvious that the suggestion advanced by Mr. Vergara would not solve the question of discrimination which is caused by the preferential exchange created in compensation agreements, the plan would have certain distinct advantages. In the first place, it would give us an assurance that our current trade would be able to finance itself by purchases of exchange in the open market. The artificial barriers would be reduced and the limitations to our trade with Chile would correspond more nearly to the normal commercial factors entering into international commerce. This advantage may not appear so important at the present time when there is a surplus of

⁴⁰ Not printed.

export drafts in the market and when it is the policy of the Chilean Government to encourage the purchase of these instruments. However, if the economic situation becomes more strained and there is a tightening of exchange control, it would be a very distinct advantage to us to be free of the restraints of exchange control and the stultifying effects of licensing and other legal restrictions. In addition, the plan would presumably solve the vexatious problem which we have had in connection with the re-export of consignment merchandise. Furthermore, while not supplying exchange at an artificially low rate it would nevertheless facilitate the transfer of frozen credits. At the present time a fair amount of these credits is being repatriated through arrangements worked out with the Minister of Finance on the basis of an exchange rate five or six points above the free market rate. The plan proposed, therefore, would save the payment of this premium to the Chilean Government for the transfer of funds.

Looking at the proposal also from a broader viewpoint, it might well prove an entering wedge toward breaking down the entire compensation system. While it cannot be clearly seen at this moment just how Chile's commerce would react under the double system which would be created it may be foreseen that with the United States and England, Chile's two most important customers, on a basis of trade free of exchange restrictions, a strong precedent would be created for the breaking down of exchange control. If trade flourished with the Anglo-Saxon countries a powerful incentive for abolishing exchange control entirely would be created.

It is not seen how according us exchange free of control would entirely solve the problem of discrimination involved in Chile's compensation system but the principle seems a large step in the right direction and combined with other provisions to give us adequate protection from discrimination it may provide the basis for a satisfactory arrangement.

As of use to the Department in its consideration of the somewhat complicated ramifications of the Chilean exchange problem, there is enclosed a memorandum prepared by Mr. Bohan, Commercial Attaché, on this subject.⁴¹ This memorandum represents an exhaustive research and has been checked as much as possible by the members of the staff of the Embassy. As the Department will appreciate, it is almost impossible to obtain accurate figures on some of the items entering into the total of exchange availabilities but it is believed that the estimates are reasonably accurate.

Respectfully yours,

HAL SEVIER

⁴¹ Not printed.

REPRESENTATIONS TO PROTECT AMERICAN INTERESTS IN THE
LIQUIDATION OF COSACH⁴² AND THE REORGANIZATION OF THE
CHILEAN NITRATE INDUSTRY

825.6374/1066 : Telegram

The Chargé in Chile (Norweb) to the Secretary of State

SANTIAGO, January 2, 1933—midnight

[Received January 3—4:36 a. m.]

1. Decree signed today cancels decrees of incorporation of Cosach and throws the company into liquidation. The decree is preceded by an indictment of Cosach for violation of the letter and spirit of the basic law. In preparation is a message to Congress suggesting special liquidation proceedings.

Cruchaga⁴³ called me to the Foreign Office this afternoon and explained that the liquidation of Cosach is essential for domestic politics and because the company is bankrupt. He said that until Congress decides upon the proposed special liquidation procedure the affairs of the company will be under the control of the liquidating committee provided for in the basic law. The question of its ultimate reorganization will be for Congress to determine.

Until the details and extent of the special message are known it is not possible to say how seriously foreign interests will be prejudiced. However the fact that this new move has been developed in secrecy and carried into effect precipitately and without consultation with the bankers or the company, has aroused apprehensions as to the good faith of the Government and the possibility of the eventual dissipation of the foreign capital invested.

It is apparent that much more is involved in present liquidation plan than was reported in my despatch 1294, November 3rd.⁴⁴ The consensus of opinion of foreign interests is that the procedure now contemplated involves not only the liquidation of an over-extended position but also the actual destruction of the capital structure. Furthermore that it means the ignoring of previously contracted obligations and that since control of the situation passes out of their hands they will no longer be in a position to protect their proper interests.

⁴² The Compañía de Salitre de Chile (Cosach) was organized under a special law passed by the Chilean Congress July 21, 1930, and certain decrees with the force of law issued by President Ibañez in 1931; the two principal subsidiaries were the Lautaro Nitrate Co., Ltd., and the Compañía Salitrera Anglo-Chileno. For previous correspondence regarding Cosach, see *Foreign Relations*, 1932, vol. v, pp. 430-505 *passim*.

For texts of pertinent Chilean decrees, reports, etc., issued in 1933, and the debates of the Chilean Congress during 1933 on the project of law for the reorganization of the nitrate industry, see Chile, Ministerio de Hacienda, *La Industria del Salitre de Chile* (Santiago, Chile, 1935), 3 vols.

⁴³ Miguel Cruchaga Tocornal, Chilean Minister for Foreign Affairs.

⁴⁴ Not printed.

Whelpley ⁴⁵ is cabling New York and London "two courses appear to be open: non-participating in so-called dissolution program, placing responsibility solely upon Government, leaving door open for diplomatic intervention which may be necessary later; or alternatively acquiescence and participation in dissolution through liquidation".

NORWEB

825.6374/1068 : Telegram

The Chargé in Chile (Norweb) to the Secretary of State

SANTIAGO, January 3, 1933—3 p. m.

[Received 3:35 p. m.]

2. My telegram No. 1, January 2, midnight. The special message transmits to Congress a bill—which during liquidation proceedings would give to the liquidating commission full powers to carry on the administrative, financial and industrial operations of the company and would prevent bankruptcy proceedings. The message however contains no indication of what is planned after liquidation. This omission, intentional or otherwise, gives foreign interests an opportunity to negotiate with the Government in an effort to share the course of any future legislation reorganizing the industry.

From a conversation I had at the British Embassy and from other sources, I have obtained the distinct impression that the British are now wondering whether it will be to their advantage to continue to maintain their solidarity with American interests. The Department may wish to confirm this with London.

NORWEB

825.6374/1069 : Telegram

The Chargé in Chile (Norweb) to the Secretary of State

SANTIAGO, January 4, 1933—11 a. m.

[Received 11:55 a. m.]

3. My telegram No. 2, January 3, 3 p. m. Whelpley yesterday filed a formal protest with the President against the decree of annulment but said the company would not oppose the Government's action and would lend its cooperation in liquidation proceedings but without responsibility for the consequences. I believe that for the time being the matter will rest there. The British Embassy has received no instructions as to diplomatic representations and indications are that the attitude of London is to await further developments.

NORWEB

⁴⁵ Medley G. B. Whelpley, President of Compañía de Salitre de Chile.

825.6374/1081

Memorandum by the Under Secretary of State (Castle) of a Conversation With the British Ambassador (Lindsay), January 5, 1933

[WASHINGTON,] January 5, 1933.

The British Ambassador handed me the attached memorandum ⁴⁶ on the Cosach situation. He says that Mr. Chilton ⁴⁷ was very much worried because apparently the Chilean Government had intimated that in the dissolution of the Cosach they had the backing of British bankers. Mr. Chilton feels, as does the Ambassador, that the interests of American-British bankers are the same and that it would be most unfortunate if any idea got abroad that they were working at cross-purposes. Mr. Chilton, therefore, supplied the memorandum of the conversation between Señor Ross ⁴⁸ and some of the British bankers. The Ambassador said that he hoped this would make the situation clear.

W. R. CASTLE, JR.

825.6374/1081

The British Embassy to the Department of State

AIDE-MÉMOIRE

In connection with the dissolution of Cosach, it seems to have been suggested in Chile that the bankers of England had some knowledge of and approved the measure. In this connection the London bankers have issued the following statement:—

“On November 17th last Señor Ross having expressed wish to meet London bankers was entertained to lunch by Messrs. Rothschild’s. Chilean Ambassador was present. Ross explained that he was glad to have the opportunity of meeting some of the London bankers interested in nitrate affairs in order to state his personal views regarding the future. He felt that a reorganization of Cosach was absolutely necessary and that industry should be carried on in future by two companies, one in Chile concerned solely with production, the other in Europe to look after sales. He explained somewhat vaguely connection which should exist between the two. He said he hoped London bankers would be prepared to continue the financing of the export of nitrate and added that bankers in London who had put their money and their faith in Cosach, had nothing to fear from anything which the new government might do.

“There followed a roving discussion in the course of which it was several times stated emphatically that government would create a serious and difficult position if any attempt were made to dissolve

⁴⁶ *Infra.*

⁴⁷ Sir Henry G. Chilton, British Ambassador in Chile.

⁴⁸ Gustavo Ross, Chilean Minister of Finance.

Cosach before some new structure had been prepared in its place. Discussion was finally closed by those present taking note of various statements made by Señor Ross and their spokesman stating that as to future financing of industry London bankers were always ready to do good business and if nitrate business was good they would doubtless be prepared to go on with it."

The discussion referred to in the above statement took place in French and through an interpreter, and translations may tend to misunderstandings. The bankers however affirm quite categorically that nothing was said to Señor Ross or any person present which could not equally well have been said in the presence of Mr. Whelpley or any other United States citizen.

JANUARY 5, 1933.

825.6374/1071 : Telegram

The Chargé in Chile (Norweb) to the Secretary of State

SANTIAGO, January 7, 1933—noon.

[Received 12:45 p. m.]

7. I believe the Chilean Government has a definite plan for procedure in the liquidation of Cosach but it has made no official statement and has refused to give any intimation to the company concerning it. It is of immediate importance to American interests to know what changes in the capital structure are contemplated. I suggest that, unless the Department perceives some objection, I talk with the Minister of Finance.

NORWEB

825.6374/1071 : Telegram

The Acting Secretary of State to the Chargé in Chile (Norweb)

WASHINGTON, January 9, 1933—2 p. m.

5. Your 7, January 7, noon. Department understands that the Government liquidators and fiscal directors of Cosach have urged the temporary appointment of a liquidator by the "B" shareholders pending regular appointment by action of "B" shareholders at extraordinary meeting called 30 days after notice. If such temporary liquidator is appointed the "B" shareholders would presumably be in a position to be informed of the "plan of procedure" in liquidating Cosach. Department, however, has no information as to what decision "B" shareholders may have reached on this point. As at present advised Department believes you should not approach the Chilean authorities. Please continue to keep yourself and the Department fully informed of developments.

Department has discussed the general question of its attitude toward the action of the Chilean Government in dissolving Cosach with Ambassador Culbertson, who leaves here tonight en route to Miami and thence by air to Chile. The Department's instructions for the Ambassador, which please bring to his attention immediately on arrival, are as follows:

"Regarding recent developments affecting Cosach, we are of course confident that the Chilean authorities will take no action unfair to American interests. You may express this informally to the Chilean authorities if you think it advisable. If it becomes a question, in your judgment, of the advisability of your discussing particular aspects of any proposed liquidation or reorganization, please cable your recommendations."

CASTLE

825.6374/1072 : Telegram

The Chargé in Chile (Norweb) to the Secretary of State

SANTIAGO, January 10, 1933—6 p. m.

[Received 7:05 p. m.]

12. Alessandri's reply to Whelpley's letter of protest was published today and a good summary cabled by United Press. This extraordinary document embodies a purely legal interpretation by the Executive attacking the legal foundations of Cosach. The only favorable feature appears to be the Government's expressed intentions to respect rights "legitimately acquired". On the other hand it denies that the Government has legally contracted any obligations, leaves it complete freedom of action regarding its treatment of Cosach and by inference challenges all the Ibañez decree laws and the rights acquired thereunder. Upon hearing of the President's reply, Whelpley officially filed a copy of his protest at the Embassy and at the British Embassy.

Also published today is a new bill to Congress extending the powers of the liquidators granting the right "to accord preferences in payment on all other claims on the company notwithstanding any provision to the contrary" and 40 days in which to appoint a third liquidator. This delay should give both the Government and the company a much-needed opportunity to reach a working agreement and may help to relieve the tension and confusion of the moment.

The details of the Government's program are still not clear but it is becoming increasingly evident that those now directing policy are prepared and able to use the strongest and most astute methods maintaining a semblance of legality to cover proceedings essentially arbitrary.

NORWEB

825.6374/1083 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, January 31, 1933—7 p. m.

[Received 10:25 p. m.]

19. For the President and the Secretary of State. It was evident to me on my return to Chile that American interests in the nitrate industry were confronted by a serious situation. A small group of men now in power were deliberately planning to liquidate the nitrate industry on a basis which would be profitable to them and which would sacrifice certain American interests. The attitude of the Government had not been responsive and the Minister of Finance had not only refused to reveal his plan of liquidation but had even declined to discuss the matter with representatives of American interests.

I immediately had several informal talks with the President, the Minister for Foreign Affairs and the Minister of Finance which are reported in my despatch No. 1365, January 25th.⁴⁹ In these conversations I avoided the discussion of issues and insisted that the important thing was a conference between the Government and American interests. In his conversation with me the Minister of Finance gave friendly assurances and a conference was definitely fixed for Saturday of this week. I emphasized that the purpose of this conference should be a frank disclosure of the Government's position in order that the American interests could determine whether a basis existed for co-operation. I asked in particular that in the meantime no steps should be taken which would be prejudicial to or alter private rights without the consent of those concerned.

In today's press a draft law was published which was sent yesterday to Congress by the Minister of Finance. A copy of this law will be furnished the Department from New York. It proceeds on the theory that the decree law appointing the Cosach liquidators terminated the security of the 60 peso charge. It thereupon proposes to restore this charge for 1 year, servicing with the proceeds only the bonds sold for cash (presumably the prior secured "A" bonds) and advancing to pro rata participation in this service the Government's "B" bonds which were junior, thus completely ignoring Cosach A and B bonds issued in acquisition of property totalling some 44 million dollars.

I talked with the Minister of Foreign Affairs this afternoon and emphasized the violation of contractual rights involved in the proposal, adding I felt it was a breach of good faith to propose such a law when a conference was pending which we hoped would give some basis of co-operation between the Government and private interests. The For-

⁴⁹ Not printed.

eign Minister said he would confer immediately with the Minister of Finance and I indicated that since the Minister of Foreign Affairs was leaving tomorrow I expected that if the Finance Minister will take action to make any conciliatory move he would consult directly with me.

In conclusion I must emphasize that the time has come when we must make formal representations. In my opinion the Chilean Government needs to be impressed with the fact that we are prepared to take a definite stand in the protection of our interests.

Please cable instructions.

CULBERTSON

825.6374/1084 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, February 1, 1933—4 p. m.
[Received 4:14 p. m.]

20. My telegram No. 19, January 31, 7 p. m., and Department's instruction No. 1449 air mail January 15th [19th].⁵⁰ Proposed law will result in advantage to certain British interests. Conversations with members of British Embassy and with American nitrate representative indicate that we cannot count on British diplomacy in this issue. On other issues this may not be the case but there is no indication that Ross' program is meeting with British opposition.

CULBERTSON

825.6374/1083 : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, February 2, 1933—1 p. m.

11. Your 19, January 31, 7 p. m. If an appropriate occasion presents itself you should urge the Minister of Finance to refrain from taking any action concerning the proposed law before the conference which takes place next Saturday. If this conference does not result in any satisfactory agreement between the Government and private interests, and it appears probable that the proposed law will be passed, the Department will upon your recommendation give immediate consideration to the advisability of making formal representations.

STIMSON

⁵⁰ Instruction No. 1449 not printed.

825.6374/1093 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, February 6, 1933—10 a. m.

[Received 10:20 a. m.]

26. As planned, representatives of Guggenheim Brothers, National City Bank, and Grace and Company met Saturday with Minister for Foreign Affairs and Minister of Finance. I merely introduced the parties and retired, thinking it better to remain for the present apart from the details of the controversy. The Americans left memorandum asking for the clarification of specific points, which will be discussed at the second conference tomorrow. The Minister of Finance showed no disposition to continue the consolidated industry contemplated by the creditors' plan of reorganization. The project of law affecting the 60 peso charge was discussed and will be held in abeyance for the time being and perhaps later amended but there was no indication of willingness to change it to remove the discrimination and confiscation of security established by contract.

Minister for Foreign Affairs indicated that he hoped for American cooperation. The possibility of formal representations has given the Government some concern. The Minister for Foreign Affairs spoke about it Saturday. Developments have not gone far enough to warrant optimism. If we show a little firmness now we will save Chile as well as ourselves trouble in the future.

CULBERTSON

825.6374/1095 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, February 7, 1933—5 p. m.

[Received 5:20 p. m.]

27. Referring to my telegram No. 26, February 6, 10 a. m. Whelpley says that considerable progress was made in today's conference; that Minister of Finance was more conciliatory toward American interests and while maintaining that some distinctions should be made between the bonds serviced by the 60 peso charge he said that if the project of law could not be satisfactorily amended it might be allowed to sleep in the Senate. The Minister even suggested the possibility of a commission composed of all interests for the formation of a plan. We must avoid any optimism at this time but this conference gave evidence of progress toward the achievement of the Embassy's efforts to bring about cooperation among all interests in the nitrate industry for the purpose of formulating a complete and equitable plan of liquidation and reorganization.

CULBERTSON

825.00/789

The Secretary of State to the Ambassador in Chile (Culbertson)

No. 1463

WASHINGTON, February 10, 1933.

SIR: The Department acknowledges the receipt of your despatch No. 1365 dated January 25, 1933,⁵¹ reporting your impressions of the political situation in Chile upon your recent return to Santiago, especially your conversations with President Alessandri and his Finance Minister regarding the abrupt Cosach and Electric Bond and Share decrees.

The Department commends you for the despatch under reference and approves of the position taken by you during your conversations with the President and the Finance Minister above referred to. It desires you to continue to keep it promptly informed of important developments in conversations which the representatives of both companies are to have with officials of the Chilean Government with reference to the problems created by the decrees above-mentioned.

Very truly yours,

For the Secretary of State:

FRANCIS WHITE

825.51/601 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 15, 1933—6 p. m.

[Received March 15—5:29 p. m.]

45. Government has under consideration new proposal affecting adversely, probably by indefinite moratorium, 60 peso charge and restoring old export tax for benefit of Government finances. New proposal may affect foreign interests more seriously than former proposal referred to in despatch No. 1377, February 8th⁵² and other communications on the same subject. I have already talked with the Foreign Minister and as before am using my good offices to prevent an open break.

CULBERTSON

825.6374/1114 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 16, 1933—6 p. m.

[Received 9:25 p. m.]

46. Reference Department's telegram No. 11, February 2, 1 p. m., and Department's instruction No. 1463, February 10. The Minister

⁵¹ Not printed; but see telegram No. 19, January 31, 7 p. m., from the Ambassador in Chile, p. 159.

⁵² Not printed.

of Finance yesterday afternoon instructed customs authorities to resume collection of export duties on nitrate and iodine under law 980 of 1897, disregarding provisions of decree law number 12 (despatch No. 794, March 6, 1931⁵³). Thus the Government without warning and without consulting the private interests affected has suspended indefinitely the service on the entire bond issue serviced by the 60 peso charge and at the same time by means of the restoration of the export tax has diverted the service of these bonds from the creditors to the treasury of the Chilean Government.

It will be immediately evident that this act of the Minister of Finance is . . . a violation of the friendly agreement arranged by this Embassy between the Government and the private interests whereby action against the 60 peso charge was to be held in abeyance and an effort was to be made to work out a complete and cooperative plan of liquidation and reorganization of the industry.

The background of this action by the Minister of Finance is his trouble with the 1933 budget now pending in Congress. The Minister has proposed various forms of taxation and economies, all of which have met with vigorous opposition. The condition of Government finances is desperate. Apparently the Minister has despaired of overcoming internal opposition to his financial program and has seized upon the restoration of the export tax, accompanied by the virtual repudiation of the 60 peso charge, to help the budget.

. . . There appears no legal or moral basis on which the Government can sustain its action in repudiating said decree law both because it has received funds which private interests paid it in faith of the provisions of that law and moreover because it was expressly recognized by Congress. See in particular enclosure number 6 despatch No. 1373 of February 1st and enclosure number 6 despatch No. 1377 of February 8th.⁵⁴

Although the Government considers Cosach dissolved by decree number 1, the subsidiary companies are entitled to exemption from payment of export tax under article IV of decree law number 12 and the orders of yesterday are therefore contrary to existing Chilean law.

The action of the Government in this matter is a direct challenge. The trustees will file a protest and are considering the possibility of attaching Chilean nitrate as it passes through the Panama Canal. The liquidator appointed by the "B" shares will withhold participation. Whelpley has filed a strong protest. Both the British and German Governments are considering diplomatic representations and, although I am reluctant to give up the policy of friendly cooperation which we have applied thus far, the action of the Minister of Finance leaves us no alternative but to consider seriously the form which for-

⁵³ Not printed.

⁵⁴ None printed.

mal representations by the American Government should take. I have talked with the Minister for Foreign Affairs. He was depressed but promised a memorandum which I hope may be available tonight. He has been working to find a solution but unless his proposal reaches the essential difficulty, I believe that we should request that the orders issued yesterday be rescinded. Indeed no other solution of the difficulty seems available. These orders make impossible further cooperation both because they have destroyed confidence in the Government and because they take for the Government benefits which under Chilean and international law the trustees are obligated to pay to the bondholders. Once the *status quo ante* is restored the process of liquidation by compromise and cooperation can continue. A general protest may be effective but I would prefer authorization to insist upon the withdrawal of the orders which have no legal justification even in Chilean law.

CULBERTSON

825.6374/1124

Memorandum by the Assistant Secretary of State (White)

[WASHINGTON,] March 17, 1933.

I saw Mr. Cohen, the Chilean Chargé d'Affaires, at the Secretary's reception yesterday afternoon and told him that I was sorry to see that a difficulty was apparently developing between our two countries. I said that we had a telegram from Mr. Culbertson indicating that the Chilean Government was contemplating abolishing the 60 peso export tax on nitrate which was hypothecated for the service of the Cosach bonds. I said that there was one report that this measure had already gone into effect by decree and that two ships had already sailed, having been charged the old export tax on the basis of the law of 1897. I said that we had no confirmation of this as yet from our Embassy in Chile.

I told Mr. Cohen that while we of course appreciate the economic difficulties of the Chilean Government and their necessity for funds and the problem presented by their unbalanced budget, and are able, on account of our own situation, to sympathize with them, there is nevertheless a right and a wrong way of doing everything. Any *ex parte* action of the sort reported as being under contemplation and, more recently, as being in effect, would certainly be the wrong way of doing the thing and would hurt Chile's credit. I said that the Cosach interests apparently had a representative in Chile who had been endeavoring to work out a satisfactory solution with the Chilean authorities and that our Ambassador had been lending his informal

good offices to this end. I told Mr. Cohen that that was the basis on which we wanted to proceed; that we did not want to have to make formal protest and that I sincerely hoped his Government would not take any irrevocable step which would make impossible a friendly working out of the problem.

Mr. Cohen said that he agreed and that he would send a telegram to Señor Cruchaga to that effect at once.

This morning, on reading Mr. Culbertson's cable No. 46 of March 16, 6 p. m., I telephoned Mr. Cohen and told him that unfortunately the step seemed to have been taken already and gave him, for his information, the contents of portions of the telegram in question. Mr. Cohen said that yesterday he had sent a cable, as promised, to Mr. Cruchaga. He was expecting to hear from him at any moment and would let me know as soon as he had anything. I told him that I much appreciated this and again expressed the hope that his Government would not take any irrevocable step that it would be hard to go back on later. I said that while I understood some protests were being made I hoped the situation had not gone so far that it would not be possible to work it out on the basis of cooperation. Mr. Cohen said that he agreed and that he would let me know anything he gets from his Government in the premises.

F[RANCIS] W[HITE]

825.6374/1115: Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 17, 1933—10 a. m.

[Received 10:35 a. m.]

47. Referring to my telegram No. 46, March 16, 6 p. m. The Minister for Foreign Affairs has not yet completed memorandum. Press this morning reflects a determination of the Government to treat its action as a *fait accompli* and to insist upon its position. Indications are that memorandum will contribute nothing to solution and that it will be too long to telegraph. I believe therefore that action need not be delayed awaiting the memorandum which will probably be primarily a defense of the Government's action and at most a compromise which takes for its starting point the assumption that the Government was justified in diverting the service of the 60 peso charge from the trustees to the Chilean Treasury.

CULBERTSON

825.6374/1116 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 17, 1933—9 p. m.

[Received March 18—12:19 a. m.]

48. Referring to my telegram No. 47, March 17, 10 a. m. The Minister for Foreign Affairs handed me late this afternoon a lengthy and diffuse memorandum which attempts to justify Government action with reference to the 60 peso charge on the ground that the President at the time exceeded his powers in waiving the Government's rights to payment in cash under the original Cosach law and that in any case public necessity justifies the action which has been taken. The main objective of the Government is reaffirmed, namely, to deprive all bonds of the security to which they are entitled under contract and law and to use the funds thus appropriated for balancing the Chilean budget. As a palliative the memorandum states that the Government will seek to earmark other and unspecified sources of revenue for the purpose of servicing the prior secured cash bonds but obviously such a promise has little value compared with the guarantees taken away.

CULBERTSON

825.6374/1117 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 20, 1933—4 p. m.

[Received 6:15 p. m.]

49. Supplementing my telegram No. 46, March 16, 6 p. m., it is becoming increasingly evident that even more fundamental to the United States Government than the question of the protection of American rights is the destructive effect of the arbitrary action of the Chilean Government upon the very basis of our diplomatic relations. For months we withheld recognition and finally accorded it only after the Chilean Government pledged in writing respect for its international obligations and for the interests of foreigners in accordance with Chilean laws and constitution⁵⁵ (despatch No. 1287, October 26 1932⁵⁶). The action taken by the present Government is not only a breach of this pledge but is more destructive of the elementary principles which govern the relations of modern states than anything which the Socialist regimes, which we did not recognize, ever proposed. In addition the action of the present Government is a direct violation of its promise to me and to my interested colleagues that no unilateral

⁵⁵ See telegrams No. 218, October 16, 1932, and No. 222, October 21, 1932, from the Ambassador in Chile, *Foreign Relations*, 1932, vol. v, pp. 501 and 505.

⁵⁶ Not printed.

action would be taken by the Government adverse to foreign interests in the nitrate industry without an effort to find a solution through conference and cooperation.

Attempts to justify the action of the Government on the grounds of political and financial necessity should not be allowed to confuse the considerations of the principles which underlie the protection of American interests; both points deserve consideration but the second must be disposed of before discussing the first. The necessity of the industry is not an argument in favor of the suppression of the 60 pesos charge since a heavy export tax is being reimposed upon the industry. Moreover, the need of a government for revenue arising from failure of taxation or economies does not justify under international law the repudiation of a contract established by law and international practice.

There is the possibility that if by prompt diplomatic action the arbitrary measures of the Government could be modified American interests might be willing to make some concessions to the emergency confronting the Chilean Government.

The Government continues to inspire publicity with misrepresentations in excuse of its action. I fear the delay in making our position clear to the Government and particularly in the press will not only make a just solution of this case more difficult but will give the impression to the Chilean public that we are for some reason reluctant to press the matter. Unless we take a prompt and firm stand we must expect our relations with Chile to become increasingly difficult and unsatisfactory and the extension of the arbitrary action against the nitrate industry to other American interests in Chile.

CULBERTSON

825.6374/1117 : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, March 23, 1933—7 p.m.

19. Your 46, March 16, 6 p.m., 47, March 17, 11 [10] a.m., and 49, March 20, 4 p.m. Please see the Minister for Foreign Affairs, and also the President if you judge this advisable, and leave an *aide-mémoire* in the following terms:

"The American Ambassador has received instructions from his Government to express the fundamental importance which his Government attaches to the principle of respect for international obligations. This principle lies at the very base of international life. Scrupulous regard for it makes for harmonious relations between states, and in reliance on it the citizens of one state go into the territory of another state and there engage in the development of legitimate commercial, industrial, and other activities. In view of the statements

in the note of the Chilean Minister for Foreign Affairs to the American Ambassador of October 15, 1932, the American Government has been confident that the Chilean Government would uphold this principle of respect for international obligations.

It is, nevertheless, very disturbing to hear that the Chilean authorities have recently by unilateral action, without warning or consultation, set aside without their consent the arrangements made with American citizens. This was done, specifically, in the action taken by the Chilean authorities in suppressing the 60 peso charge created by Chilean law for the service of the so-called Cosach bonds. This action is the more to be regretted since it appears that the Chilean authorities and the private interests had been in agreement that they should seek through cooperation to work out a complete and mutually satisfactory plan for the liquidation and reorganization of the company's affairs. It is obvious that a solution of this problem, as of any other problem involving the interests of nationals of a foreign state, can only be attempted on the basis of respect for all interests concerned. For a government as one party in interest, by unilateral action without consultation or agreement, to override and set at nought the interests of others, would strike at the very basis on which rest the relations between states.

In the light of the foregoing principles it seems to the American Government that the best approach, in an effort to reach a satisfactory solution of the Cosach problem, lies in a return to the methods of full and frank cooperation between all interests. The American Government, therefore, expresses the very earnest hope that appropriate steps may be taken by the Chilean Government which will restore an atmosphere of mutual confidence for the resumption of discussions between all interests in an effort to arrive at a solution equitable to all concerned.

The principle of respect for international obligations which the American Government invokes in this case covers equally, of course, the whole field of Chilean-American relations."

Have the American interests considered the possibility of arbitration of the present difficulty under Article 35 of the basic Cosach law of July 21, 1930? If arbitration were arranged it would open a way for the Chilean Government to hold in abeyance the action taken against the 60 peso charge and afford an opportunity for the resumption of discussions. Please cable your reaction to this.

HULL

825.6374/1123 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 24, 1933—4 p. m.

[Received 6:30 p. m.]

50. Referring to your telegram No. 19, March 23, 7 p. m., I am sincerely grateful for your effective support. I presented the *aide-mémoire* today to the Minister for Foreign Affairs and expect to talk

with the President tomorrow. The Minister for Foreign Affairs reflected a desire to avoid further difficulties and hoped to have some suggestions soon which would contribute to a solution.

Your suggestion of arbitration is relevant but unfortunately the Supreme Court of Chile could not be under present conditions an impartial arbitrator. For example, the third liquidator was appointed by the Supreme Court upon the theory that he would act as impartial judge between the Government and the private interests in resolving all questions in the Liquidating Commission. However, although a former Minister for Foreign Affairs and a man of standing, in actual practice he has in every case taken his instructions from the Minister of Finance and voted accordingly.

If the Chilean Government will reacknowledge the principle of the 60 peso charge and re-establish the rights of the parties under contract affected adversely by the arbitrary action of the Minister of Finance I believe the way may be open for a solution by conference.

British, Germans and Dutch are also making representations similar to ours.

Press representatives have been tipped off from Washington and are asking us for information. We have declined all comment. I assume that for the time being it is not intended to make any public statement.

CULBERTSON

825.6374/1123 : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, March 25, 1933—2 p. m.

20. Your 50, March 24, 4 p. m., last paragraph. Department has made no public statement and is not intending to make any. The Department does not intend to make public the text of the *aide-mémoire* in its 19, March 23, 7 p. m.

At the press conference on March 24 the Secretary said, in reply to questions but not for attribution regarding instructions to you, that: "It is simply a matter about working out some kind of adjustment in connection with what seemed to be a misunderstanding or difference of opinion about a fundamental phase of the relations between the two Governments as it grew out of some transaction, so I just suggested that all efforts be made to iron out that matter in accordance with what I thought was the sounder basis of international relationship."

HULL

825.6374/1125 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, March 25, 1933—4 p. m.

[Received 6:05 p. m.]

52. The reference in United Press despatches to "friendly representations" by the United States Government has been used by the Government to inspire press articles indicating a lack of resolution on the part of the American Government to press its representations. One newspaper even characterized the representations as routine and lacking in gravity. I spoke to the Minister for Foreign Affairs yesterday about publicity, telling him that it is our policy not to give out any statements and that I hoped it might be possible to avoid controversial declarations in the Chilean press. However, the Minister of Finance continues his policy of building up his case through misrepresentations of the situation in the newspapers.

My conference with the President today was not satisfactory. He discoursed diffusely on the political situation and on other collateral matters. He asserted that it is the intention of his Government to respect its international obligations but argued first that an interference with private contract is not a subject for representations and then said that for the Government to reverse its action would mean its downfall. It was clear that his Ministers had not told him all the truth and that he had been brooding over his troubles. In the 40 minutes' conversation I had an opportunity to explain the true situation and perhaps with this fuller knowledge we may be able to find a solution satisfactory to private interests while preserving the Government's prestige. I shall talk the matter over at length with the Minister for Foreign Affairs on Monday and then see the President again.

CULBERTSON

825.6374/1133 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, April 3, 1933—8 p. m.

[Received 9:40 p. m.]

53. The Minister for Foreign Affairs handed me today a 12-page memorandum in reply to our *aide-mémoire* transmitted in your telegram 19, March 23, 7 p. m. Like replies were handed to my three colleagues.

The Government denies any international obligation and declares that the order to suspend the 60 peso charge was not arbitrary. It argues that the parties, before resorting to diplomatic action, should

have exhausted remedies in the courts. It ignores entirely the real questions at issue raised in our communication.

My conversation with the Minister as well as the definite statement in the memorandum confirms my fear that the Government has definitely decided to repudiate its obligations under decree law number 12. The significance of this decision will be evident when considered with the background furnished by my despatches. The fact is that Chile has decided to repudiate its promise to carry out its obligations under the international contracts providing for the Cosach bonds from which it has profited and under which rights of the bondholders have been acquired. Chile thus raises the fundamental issue of its right to invalidate the acts of previous governments. The Minister for Foreign Affairs, who visibly showed a regret that the matter had been taken out of his hands, called my attention to the last paragraph of the memorandum which he said he wrote. It reads:

"The Compañía de Salitre de Chile in liquidation has declared itself to be and continues disposed to consider with the greatest interest the proposals which interested individuals have made to it or may make in the future, in order to place the nitrate industry in a position which may best guarantee the legitimate interests of all.

The Government in its turn will be pleased to see that a satisfactory agreement in such sense may be reached."

This pathetic gesture has a touch of irony which I fear the Minister did not see. As before, the Government appeals for cooperation after the fact and wishes to start cooperation again with the assumption that the interests will accept the losses imposed by force and continue to give positive aid. A definite plan of cooperation was to be submitted this evening but the American interests have now withdrawn it.

Although the Minister for Foreign Affairs said there would be no publicity I have good reason to believe that the Government, for the purpose of internal politics, will allow the substance of its reply to leak out. In this event I recommend publishing our communications in order that the public will not obtain a distorted view of the situation. Text and my comments by air mail Wednesday. Unless otherwise instructed will take no action pending Department's instructions.

Let us keep before us that the challenge which the Chilean Government has thrown down to four foreign governments involves an issue larger than the interests in the nitrate industry. No government interested in maintaining the principles which govern the relations of states can fail to make its position unequivocally clear on the issue raised.

CULBERTSON

825.6374/1138

*The Chilean Ministry for Foreign Affairs to the American Embassy in Chile*⁵⁷

[Translation]

No. 1956

In conformity with its instructions, the Embassy of the United States has made known to the Ministry of Foreign Affairs, by an *Aide-Mémoire* of March 24, 1933, the opinion of its Government concerning an order recently given to the Customhouses not to continue collecting a charge of sixty pesos per ton of nitrate which Decree Law No. 12 had established.

After considering the matter attentively, the Ministry of Foreign Affairs hopes that the enclosed Memorandum will demonstrate to the Embassy of the United States the good basis of the measure taken by the Government of Chile and of the position and general points of view which the Ministry maintains with relation thereto.

From the said Memorandum the Embassy of the United States will be able to see how remote (*distant*) is the situation produced, in so far as the Government of Chile is responsible therefor, from compromising the respect due to international obligations to which the said *Aide-Mémoire* refers, a matter in which the Government of Chile has always conformed and will conform fully with the principles of International Law which such obligations impose and govern.

SANTIAGO, April 3, 1933.

[Enclosure—Translation⁵⁸]

MEMORANDUM

With regard to the order of the Government of Chile to suspend the collection by the customhouses of the charge of 60 pesos per ton of nitrate which Decree-Law No. 12 had imposed, there exists no contract whatever between the Government of Chile and the holders of the bonds in question, much less international obligations with reference to that matter.

The Compañía de Salitre de Chile which issued the bonds in question, had it had a legal existence, would have been a Chilean corporation with its own juridical personality, in which the Government of Chile would have had no greater participation than that which, within legal limits, it would have had in its capacity of shareholder of the Company.

⁵⁷ Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 1423, April 5; received April 13.

⁵⁸ File translation revised.

The order issued by the Government of Chile to the customhouses to suspend the collection above referred to, has not been an arbitrary measure but, on the contrary, a well-founded one, which point will be discussed again further on.

In any case, if the interested parties believe the Government of Chile responsible for the damages which the resolution may have caused them, they should have initiated the judicial action which they believed applicable before the ordinary courts of justice whether the said interested parties are Chilean or foreigners, notwithstanding this these latter proceed to employ the diplomatic channel when they have not exercised and exhausted the remedies which the laws of the country place at their disposition and there has not been a denial of justice in the case.

The established principles of International Law in that sense are enriched with the following citations from Moore's *Digest of International Law*:

"The ground of diplomatic intervention in behalf of individuals, for injuries in person or in property, is a denial of justice". (Vol. 6, page 651).

"In a note to Mr. Hunter of the 23d of July last, the Brazilian minister of foreign affairs positively declined entering into a diplomatic agreement in the case of the *John S. Bryan*, upon the ground that the claimants had a remedy at law, of which they had not availed themselves. This remedy is understood to be in the nature of an execution against the imperial treasury itself. By a letter to Mr. Hunter from the Department of the 4th of March last, he was instructed to endeavor in a confidential conversation with the minister to induce him to retract his decision. If, however, the minister should adhere to it, Mr. Hunter was to inform the agent of the claimants that the course indicated by the minister must, at all hazards, be pursued before further diplomatic interference on the part of this Government could be exercised." (Mr. Forsyth, Secretary of State, to Mr. Saltonstall, June 13, 1840, Moore, Vol. 6, page 658).

"A citizen of the United States, residing in Canada, whose property there situate has 'been destroyed and pillaged by British troops,' must first seek redress from the 'tribunals of the country under whose laws he had settled'; and until this remedy has been exhausted he is not entitled to the intervention of the Department of State in his behalf." (Mr. Buchanan, Secretary of State, to Mr. Larrabee, March 9, 1846, Moore, Vol. 6, page 658).

"The Department of State can not take cognizance of claims which are cognizable by the judicial tribunals of the United States". (Mr. Seward, Secretary of State, to Lord Lyons, January 12, 1863, Moore, Vol. 6, page 660).

"A claimant must exhaust his remedy before the local tribunals, when there are such, and when he is admitted to equal privileges in them, before he can claim diplomatic intervention". (Mr. Davis.

Acting Secretary of State, to Mr. Taylor, October 20, 1871, Moore, Vol. 6, page 661).

"The acts of an inferior judicial authority do not compromise, in general, the responsibility of the State, under the international point of view, when the claimant has not exhausted all legal remedies, such as judicial appeals or in other manner." (Blumhardt, *U. S. vs. Mexico*, July 4, 1868, Moore, *Arbitration*, 3146).⁵⁹

"Moreover, it is believed to be a general rule with all governments to abstain from a direct application for amends in case of injury to a citizen or subject, which injury is capable of redress through the ordinary process of law, at least until reparation shall have been sought through the judicial tribunals." (Mr. Fish, Secretary of State, to John Warren, February 26, 1875, Moore, Vol. 6, page 661).

In a communication of the British Government, dated November 14, 1928, which is inserted in the volume "Conference on the Codification of International Law, Bases of Discussion, Volume 3, Responsibility of States for Damage Caused in Their Territory to the Person or Property of Foreigners," publication of the League of Nations in 1929, there is stated the following:

"As was said by His Majesty's Government in Great Britain in the memorandum enclosed in a note to the United States Government, dated April 24th, 1916:

'His Majesty's Government attach the utmost importance to the maintenance of the rule that when an effective mode of redress is open to individuals in the courts of a civilized country by which they can obtain adequate satisfaction for any invasion of their rights, recourse must be had to the mode of redress so provided before there is any scope for diplomatic action.' (American Journal of International Law, 1916, Special Supplement, page 139).

"The note goes on to point out that this is the only principle which is correct in theory and which operates with justice and impartiality between the more powerful and the weaker nations.

"If a State complies with the obligations incumbent upon it as a State to provide tribunals capable of administering justice effectively, it is entitled to insist that before any claim is put forward through the diplomatic channel in respect of a matter which is within the jurisdiction of those tribunals and in which they can afford an effective remedy, the individual claimant, whether a private person or a Government, should resort to the tribunals so provided and obtain redress in this manner.

⁵⁹ The full text of the above citation from Moore's *Arbitration*, p. 3146, reads as follows:

"Again, in the case of *Wm. J. Blumhardt v. Mexico*, No. 135, he said: 'The umpire is of the opinion that the Mexican Government can not be held responsible for the losses occasioned by the illegal acts of an inferior judicial authority, when the complainant has taken no steps by judicial means to have punishment inflicted upon the offender and to obtain damages from him. The umpire does not believe that the Government of the United States, or of any nation in the world would admit such a responsibility under the circumstances which appear from the evidence produced on the part of the claimant, showing that Judge Alvarez was the person to blame, and that it was against him that proceedings should have been taken'".

"The application of the rule is thus conditional upon the existence of adequate and effective local means of redress. Furthermore, in matters falling within the classes of cases which are within the domestic jurisdiction of the State, the decisions of the national courts in cases which are within their competence are final unless it can be established that there has been a denial of justice." (Page 206).

The above-cited bases of discussion for the Conference on the Codification of International Law which the League of Nations published in 1929 on the subject "Responsibility of States for Damage Caused in their Territory to the Person or Property of Foreigners" contain the following point XII:

"Is the enforcement of the responsibility of the State under International Law subordinated to the exhaustion by individuals concerned of the remedies afforded them by the municipal law of the State whose responsibility is in question?"

The said publication inserts the replies given on that point by twenty-two of the governments to whom had been submitted the questionnaire containing it.

Not one of the replies was negative, for which reason the said publication adds as a synthesis thereof: "Affirmative replies have been given to this question and this solution has been adopted in recent treaties of arbitration, etc."

With respect to those treaties of arbitration, it should be recalled that the General Inter-American Treaty concluded at Washington on January 5, 1929, was signed by the Chilean delegates, Messrs. Manuel Foster and A. Planet, with the reservation that Chile does not accept obligatory arbitration "for those questions which, being under the exclusive competency of the national jurisdiction, the interested parties claim the right to withdraw from the cognizance of the established judicial authorities, unless said authorities decline to pass judgment on any action or exception which any natural or juridical foreign person may present to them in the form established by the laws of the country."⁶⁰

That has always been the doctrine of the Government of Chile on this point.

In the *Memoria de Relaciones Exteriores* of 1844, Minister Ramón Luis Irrarázaval says:

"It is a recognized rule of International Law that the claims of a Government to a Government through the diplomatic channel in behalf of private parties who complain of injuries or damages and whose rights must be submitted to the cognizance of the tribunals, must be preceded by the corresponding judicial processes. Only in the case of a denial of justice, or of a manifestly unjust sentence, based on the authority of an adjudged case, after the interested parties have

⁶⁰ *Foreign Relations*, 1929, vol. I, pp. 659, 664.

availed themselves of all legal remedies; only in this extreme case is there occasion, according to practices of nations, for the claims of a Government to a Government with the object of indemnifying the injured parties."

The Minister for Foreign Affairs, Mr. Antonio Varas, wrote to the British Chargé d'Affaires in a note of December 14, 1850, on a case of this kind :

"The Government believes that to discuss this claim now through diplomatic channels would be to give to the subject a turn which would not be in conformity with regular and constitutional order, and that the interested party should be content to resort to the judicial authority which, under our laws, is the one empowered to decide all contentious questions."

By note of July 12, 1852, the same Minister, Mr. Varas, said to the British Chargé d'Affaires :

"The diplomatic measures are in order when a foreigner, who presents a claim against the Government, has availed himself of the ordinary remedies which the laws place at his disposal in order to obtain justice and he has not been heard by the judicial authorities, etc."

On April 23, 1853, the said Minister for Foreign Affairs, Mr. Varas, wrote to the British Chargé d'Affaires :

"There is no doubt that the injustices of the tribunals committed with respect to a foreigner would give the right to the State to which he pertains to demand reparation through diplomatic channels; but before that injustice has been committed diplomatic intervention would be not only untimely, but also contrary to the independence of each State which has an indisputable right to demand that other States respect the action of its laws and tribunals and allow them to resolve on matters of their cognizance."

In the *Memoria de Relaciones Exteriores* of 1861, the said Mr. Varas stated :

"The foreigner who has been injured in his property or in his person must, the same as a Chilean, resort to the judicial authority so that this authority, in conformity with justice and the laws, may pronounce the decision which is applicable. Only in the case that the judicial authority should pronounce a decision openly unjust, without the same channel permitting a correction, would there be grounds to demand diplomatic intervention."

On January 17, 1863, the Minister for Foreign Affairs, Mr. Manuel A. Tocornal, wrote to the Brazilian Chargé d'Affaires :

"The conditions indispensable to every claim, whose object may be obtained through diplomatic channels, are lacking when there have not been exhausted, on the one part, all the processes and remedies which our laws place at the disposition of the litigants and which constitute a safeguard of his rights, etc."

The Minister for Foreign Affairs, Mr. Alvaro Covarrubias, said on November 26, 1864, to the Consul in Buenos Aires:

"It is not possible that the Government should interpose its diplomatic action, which could be in order only in case of a manifest denial of justice."

Without further citations of the Chilean doctrine, all of which are in accord with the foregoing and which could be added in abundance, it is expedient to note that, at the Pan-American Conference in Mexico in 1901, the Chilean Delegation formulated and submitted to the consideration of the Assembly a project which is expressed as follows:⁶¹

"The Parties shall not officially support any claim which must be brought before a court of the country against which the claim is made, except in those cases in which the court may have shown a denial of justice, or an abnormal delay, or an evident violation of the principles of International Law."

In the Conference on the Codification of International Law, held at The Hague in 1930, the Chilean delegate, Mr. Miguel Cruchaga, stated⁶² that "a State's municipal responsibility is determined by its national law and that is a precedent of its international responsibility," and he added: "For the purposes of the Convention which we are drawing up, no international obligation arises, in my opinion, unless the remedies established by the national law and the procedure devised for securing a pecuniary reparation have been exhausted."

As was said above, in the order which the customhouses have received with respect to the charge of 60 pesos per ton of nitrate which Decree-Law No. 12 had established, there is nothing arbitrary or without consultation (*inconsulta*).

In the antecedents of the debate in Congress of Law No. 4945 of extraordinary powers on which it was endeavored to base the said Decree-Law No. 12, it was unequivocally established that in the exercise thereof "the guarantee of the State would not be given to the Compañía de Salitre de Chile". (Page 1131 of the Bulletin of Sessions of the Senate, 1931).

One of the sources of interpretation of the law, in conformity with the general principles which the Civil Code provides in this respect, is "its intention or spirit clearly manifested in the law itself or in a trustworthy history of its enactment". (Article 19).

The Minister of Hacienda who, endeavoring to exercise the extraordinary powers which the said law No. 4945 granted to the Government, promulgated Decree-Law No. 12, was accused in conformity with

⁶¹ For text of the Chilean project, see Second International American Conference, Mexico, 1901-1902, *Organization of the Conference, Projects, Reports, Debates and Resolutions* (Mexico, 1902), pp. 273-275.

⁶² League of Nations, *Acts of the Conference for the Codification of International Law*, held at The Hague from March 13th to April 12th, 1930, vol. iv, p. 53.

the Political Constitution of the State by the Chamber of Deputies before the Senate of having "infringed the Constitution, violated the laws, left others not carried out and seriously compromised the honor of the Nation." (Page 1 of the Bill of Charges).

Among the bases of the said accusation there was expressly mentioned not only, in general, "to break the word solemnly pledged in the name of the Executive Power with respect to the use which would be made of extraordinary powers which were requested from Congress", but also, in particular, the promulgation of Decree-Law No. 12 (page 2 of the Bill of Charges).

In the accusation formulated by the Chamber of Deputies before the Senate, the following was said about this last point:

"Shortly after the enactment of the said law of extraordinary powers, the same Minister who before Your Excellency had made such positive statements, promulgated Decree-Law No. 12 of February 24 of the present year, which permitted Cosach to effect the payment of the annual quotas fixed by the same law in a manner different from that fixed by Congress and thus . . . changed the payment in cash to 7% bonds. The payment of these bonds was guaranteed by a tax of sixty pesos per ton of nitrate which would be exported.

"This aspect of the question alone is serious, since it substantially alters the intention of the legislator. But even more serious yet, is the hidden and malicious part of these provisions. The tax established to guarantee the payment of the bonds issued in favor of the State must serve also to guarantee any other bonds which the same Corporation may decide to issue in favor of individuals.

"Opposing the will of the legislator and breaking the word solemnly pledged before Your Excellency, Mr. Castro Ruiz compromised the guarantee of the State which has gone so far as to use its own Custom-houses in order to insure the payment of the obligations which the Company may wish to guarantee in this manner and our sovereignty has been threatened, since it will not be possible that a single quintal of nitrate shall leave our ports unless there has previously been obtained the consent of the bankers which the Company itself has designated to exercise this control." (Page 32, Bill of Charges).

Under date of November 3, 1931, the Senate approved the accusation thus initiated before it by the Chamber of Deputies against the ex-Minister, Mr. Carlos Castro Ruiz, "for infractions of the Political Constitution of the State, declaring that the accused is guilty of the crime (*delito*) and of the abuse of power with which he is charged." (Page 54, Expediente de Acusacion).

With those antecedents, the Government had not only the right but the duty, increased by the situation created for the nitrate industry and the vital necessities of the State leagued with that industry, to order the suspension of the arbitrary and illegal collection which had been prescribed in Decree-Law No. 12.

If that order injured the foreign holders of the bonds arbitrarily and illegally issued (*Constituidos*), the responsibility for that injury would not fall upon the Government, because its responsibility can be compromised by public authorities or officials who function within their legal powers, but not by the acts which they commit outside of those powers.

According to Article 4 of the Political Constitution of the State, "no magistracy, person or assembly of persons, not even under the pretext of extraordinary circumstances, can attribute to themselves any other authority or rights than those which have been expressly conferred upon them by the laws. Every act in contravention of this article is void".

Moore says in his *Digest of International Law*:

"In respect to the liability of a Government for the acts of its agents, a distinction has been drawn in international discussions between different kinds of agents, and, as in private law, between acts done within and those done outside of the scope of the officer's agency." (Volume VI, page 740.)

"In the transaction of public affairs, there are two classes of officers, one employed in the collection of the revenues and the care of the public property, who represents the proprietary interest of the Government; and another class, who are the agents of society itself, and are appointed by the Government only in its relation or capacity of *parens patriae*. For the acts of the former, the Government holds itself responsible in many cases, because their acts are performed for the immediate interest of the Government. But, for the acts of the latter, no Government holds itself pecuniarily responsible. It provides means to make them personally responsible, or to punish them for malfeasance in office, and in so doing it does all which the people have by their constitution and laws required of the Government." (Cushing, Attorney General, March 27, 1855, Moore, Vol. VI, pages 740 and 741.)

On the other hand, the Compañía de Salitre de Chile in liquidation has declared itself to be and continues disposed to consider with the greatest interest the proposals which interested individuals have made to it or may make in the future, in order to place the nitrate industry in a position which will best guarantee the legitimate interests of all.

The Government, in its turn, will be pleased to see a satisfactory agreement in such sense reached.

SANTIAGO, April 3, 1933.

825.6374/1144

*Bases of a Possible Plan for the Reorganization of the Nitrate Industry*⁶³

[Translation]

1. The establishment for a period of ten years of a tax of 25% on the net profits of a Sales Corporation which will be formed.

2. All of the Prior Secured Bonds shall be considered, without distinction, to have a preferential right in the profits of the industry.

3. The three millions in cash loaned by Guggenheim Brothers in December 1931, in accordance with the plan of stabilization, shall receive equal treatment with the Prior Secured Bonds.

4. The question of the Prior Secured Bonds shall be settled previously recognizing them as a fixed charge, a low rate of interest and an amortization—which shall be paid when profits are obtained, or alternatively a higher interest the payment of which as well as the amortization shall be subject to when profits are made.

5. Plants shut down and concessions or port facilities not being used shall be exempted from the tax, and the industry shall not be charged any other tax on profits, such as those provided on the service of debts or dividends on shares which are paid from profits.

6. The industry shall be permitted to obtain local currency at the export draft rate of exchange.

7. The Government will cancel its Secured Bonds and any other claim it might have against Cosach and its subsidiaries and these, in their turn, will renounce any claim they might have against the Government.

8. In consideration of the concessions indicated, on the part of the Government, the holders of Secured Bonds will be asked to accept the cancellation of their Secured Bonds as an obligation of Cosach, on the basis that the balance of those bonds would be assumed by the companies where they originated as a private debt of theirs.

9. In consideration of the concessions of the Government and of the producers holders of Prior Secured Bonds, the other creditors must reduce and adjust their credits to where it may be necessary in order to place the industry on a basis of reasonable capitalization.

10. Meanwhile the foregoing arrangements are being negotiated, the Sales Corporation will be organized in order to begin operations on July 1, 1933.

⁶³ Copy transmitted to the Department by the Ambassador in Chile as enclosure No. 6 to his despatch No. 1428, April 15; received April 24.

Marginal note states: "No one acknowledges authorship of the following plan. But it is a product of conferences between the Guggenheim representative and members of the Liquidating Commission and is being discussed with the Minister of Hacienda. Presumably it would be acceptable to the Guggenheims if not modified in any essential feature. No progress has been made toward its adoption except as indicated in Enclosure No. 7 [not printed] of this despatch."

11. The Sales Corporation will have in its hands all Chilean nitrate and iodine and will be administered by the Chilean producers, subject only to the supervision of the Government and regulations necessary to maintain good order.

12. The Sales Corporation will take charge on the first of July of pending credits abroad of nitrate and iodine.

13. Cosach and its subsidiaries will deliver to the Sales Corporation a sufficient quantity of nitrate and iodine in Chile for shipment as a sufficient guarantee of the credits assumed by the latter.

14. Furthermore, Cosach and its subsidiaries will deliver a quantity of nitrate and iodine in Chile as a capital contribution.

15. The right to the present charge of sixty pesos gold will be transferred to the Sales Corporation, duly ratified by appropriate legislation, or better a new charge of 45 pesos gold and the holders of prior secured bonds will be offered their exchange for new bonds whose terms will be described further on.

16. The said charge will be collected and retained by the Sales Corporation on all nitrate extracted and shipped by Cosach and its subsidiaries.

17. The foregoing charge will be placed on the basis of revenue and will be collected provided that in any year the industry has the capacity to pay it totally or in part, and a commission will be appointed formed by an independent auditor of the Company and two members appointed by the trustees in London and another by the trustees in New York, of the new bonds, the vote of the majority deciding whether the industry has the capacity to pay.

18. The Sales Corporation cannot dispose of any distributable profits until the fixed service or the income service of the new bonds is paid, this provision no[t] affecting the associates who are not successors of the properties which now belong to Cosach and its subsidiaries.

19. During the period of stabilization which is fixed at five years, sales quotas will be distributed between Cosach and its subsidiaries in accordance with the percentages fixed on January 7, 1933, the percentages assigned to the independent producers being reduced pro rata.

20. After the five-year period of stabilization, the quotas will be distributed on the basis of economic productive capacity.

21. The new issue of prior secured bonds will have a fixed interest of 4% and an amortization of 2%, the payment of the amortization being subject to the profits available at any time; or 6% of interest and 2% of amortization, the payment of both of which being subject to whether there are profits available.

22. There will be formed three, or possibly four, new productive units grouping the producers geographically: one in Tarapacá, an-

other in Tocopilla, and a third in Antofagasta and Taltal, the latter group being subject to division into two.

23. The Liquidating Commission, together with the Superintendency of Nitrate, will make a study in order to determine the recoverable values of these three groups. The result of this study will be the basis of the capitalization of each group, the capital being divided into 75% of income bonds and 25% of preferred shares, and, moreover, there could be made a reasonable issue of common stock for future values.

24. The Liquidating Commission will fix the capitalization and the producing groups prior to January 1, 1934. Immediately it will be presented to the creditors and shareholders so that they may reach an agreement with respect to the distribution among themselves of the capital, prior to June 1, 1934.

25. If the majority of the creditors by that date have not submitted a plan of distribution they will be required, through Chilean legislation to be enacted at that time, to submit their claims to an international committee of arbitration.

26. The new producing companies, and the old ones meanwhile the former are being organized, will consign their products to the Sales Corporation at the actual cost of production, plus a surcharge of 1.50 dollars per ton to take care of reserves for replacement and depreciation of machinery and plants, and when the said reserves have reached a sum in excess of the said necessities, that excess can be transferred to distributable profits.

27. The balance of profits will be obtained by the producing groups for their participation in the profits of the Sales Corporation, after the participation of the State has been paid and the service on the Prior Secured Bonds has been made, as has been established.

28. The president of the Sales Corporation will reside in Chile and the different producing groups will have adequate representation on the Board of Directors in order to intervene in those matters which affect their interests.

SANTIAGO, April 4, 1933.

825.6374/1144

The Chilean Ministry for Foreign Affairs to the American Embassy in Chile ⁶⁴

[Translation]

No. 2221

The Ministry of Foreign Affairs, in reference to the final part of the Memorandum transmitted with the *Note Verbale* of the 3rd of

⁶⁴ Copy transmitted to the Department by the Ambassador in Chile in his despatch No. 1428, April 15; received April 24.

April, has the honor to forward to the Embassy of the United States of America a copy of the resolution adopted unanimously by the Liquidating Commission of the Nitrate Corporation of Chile under date of the 7th instant.

The Ministry of Foreign Affairs takes advantage of this opportunity to renew to the Embassy of the United States of America the assurance of its highest and most distinguished consideration.

SANTIAGO, April 13, 1933.

[Enclosure—Translation]

Resolution Adopted by the Liquidating Commission of the Compañía de Salitre de Chile, April 7, 1933

In Santiago, on April 7, 1933, at 3:30 P.M., the Liquidating Commission of the Nitrate Corporation of Chile resolved itself in session, at which were present Mr. Jorge Matte Gormaz, appointed by the President of the Supreme Court of Justice, Mr. Aureliano Burr, appointed by His Excellency the President of the Republic, Mr. Horace R. Graham, appointed at the Special Extraordinary Meeting held on February 10, 1933, the Manager Mr. Alejandro Echegoyen, the Advisors Messrs. Manuel Antonio Maira and Osvaldo de Castro, Mr. Joaquín Irrarrázaval and the Secretary Mr. Florencio García.

The Meeting was presided by Mr. Jorge Matte Gormaz.

The Minutes of the last meeting were read and approved.

The following was discussed:

1)—*Suspension of the Payment of \$60.—per Ton.—*

Report was made of letters from the offices in London and New York transmitting the protests made by the trustees of the bonds of the Nitrate Corporation of Chile against the suspension of the payment of the sixty pesos gold per ton assigned for the service of those bonds.

In this respect and after carefully considering the situation, the Liquidating Commission unanimously agreed to make the following declaration:

The instructions issued on March 17th last by the Minister of Hacienda to the Customhouse authorities not to continue intervening in the control of the payment of the sixty pesos gold per ton of nitrate shipped, provided for in Decree No. 2935 of April, 1931, do not affect the rights of the holders of bonds of the Nitrate Corporation of Chile to demand before the judicial authorities the fulfillment of their contracts and the compliance with the forms of payment prescribed in the said contracts.

The Supreme Government has taken no resolution to suspend the payment of the sixty pesos gold. This suspension is due to a resolution of the Liquidating Commission of the Nitrate Corporation of Chile which, under the moratorium provided in Article 7 of Law No. 5133, has considered that, in view of the present condition of the in-

dustry and the financial situation of the liquidation, it cannot continue to service in gold this obligation which was contracted prior to the liquidation of the Corporation.

The said resolution of the Liquidating Commission has not changed in any manner the rights derived from existing contracts, nor has it modified the situation of the interested parties or of the Trustees of the Prior Secured and Secured bonds vis-à-vis the liquidation and the other creditors.

As this is the precise meaning of the resolutions of the Liquidating Commission, it considers it to be its duty to leave it on record and to acquaint all the interested parties therewith. The Liquidating Commission trusts that the creditors, understanding these purposes, will realize the necessity of beginning immediately the study of a plan of reconstruction of the nitrate industry and a readjustment of the finances of the Nitrate Corporation of Chile in Liquidation which, taking into consideration the present depressed condition of the market and its possible capacity, will permit, in the best possible manner, taking care of the fiscal situation and of the different debit obligations of the Corporation.

It was further resolved to send this declaration to the Company in London so that it might be communicated privately to the Trustees.

The meeting was adjourned at 3:55.

JORGE MATTE

H. R. GRAHAM

A. BURR

A. ECHEGOYEN

FLORENCIO GARCÍA

825.6374/1139 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, April 14, 1933—4 p. m.

[Received 5 p. m.]

56. The Minister for Foreign Affairs transmitted yesterday to the four interested missions a resolution adopted by the Liquidating Commission which he hoped would be accepted as conciliatory. Unfortunately, however, he does not state in the transmitting memorandum that the Government concurs in it nor did he modify the statements in his memorandum of April 3d which deny the constitutionality of decree-law No. 12 and the obligations of the Government therein established.

Text by air mail.⁶⁵

CULBERTSON

⁶⁵ *Supra*.

825.6374/1143 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, April 22, 1933—noon.

[Received 12:55 p. m.]

58. Unfortunately nothing has happened to modify the basic diplomatic situation reported in my last despatches. To keep the Department up to date on recent developments I desire to report that Ross has not committed himself but appears favorably disposed toward the reorganization plan described in enclosure 6⁶⁶ my despatch No. 1428, April 15,⁶⁷ provided (1) special treatment toward the Chilean Lautaro group is obtained; (2) heavy revenues for the Government are provided. Whelpley is willing to discuss these unreasonable demands and seems to feel that the plan offers a possible way to reorganization which the creditors might accept. The attitude of other interests is as yet undetermined.

There may later develop something in these plans which may afford a basis which will meet the diplomatic problem but at present the Government is yielding nothing on the real point at issue and in my opinion whatever steps the Department has taken to formulate its reply should not be modified nor delayed by any of these recent developments. If, when the time comes to present our reply, there is some hopeful factor which is not now apparent I shall consult my colleagues and telegraph the Department prior to delivering the note.

CULBERTSON

825.6374/1143 : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, April 28, 1933—3 p. m.

22. Your 58, April 22. Before determining upon any action with regard to the Chilean *aide-mémoire* of April 3, 1933, the Department would like your comment on the following points:

(1) Do all American interests in the Cosach feel that the reorganization plan described in enclosure No. 6⁶⁶ to your despatch No. 1428 of April 15, 1933, offers the basis for a satisfactory and equitable solution of the Cosach problem including the controversy which has arisen over the 60 peso charge?

(2) If not, is there any other course of action acceptable to the Chilean Government as a basis for negotiation upon which all American interests are united?

⁶⁶ See Bases of a Possible Plan for the Reorganization of the Nitrate Industry, *ante*, p. 180.

⁶⁷ Not printed.

(3) What further representations do the Governments of Great Britain, Germany and the Netherlands contemplate making? In making discreet inquiries in this connection you should avoid giving the impression that this Government's action is contingent upon similar action by the Governments named.

HULL

825.6374/1152

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1458

SANTIAGO, May 10, 1933.

[Received May 18.]

SIR: Referring to my telegram No. 63 of May 10, 6 p. m.,⁶⁸ I have the honor to transmit herewith a memorandum of the Minister for Foreign Affairs and the plan transmitted thereby, which provides for the reorganization of the nitrate industry. Identic memoranda are being sent to my colleagues of Great Britain, Germany and Holland. This official act of the Minister, taken with the approval of the President and the Minister of Hacienda, may be interpreted as a conciliatory step of the Government to dispose of the diplomatic issue raised by the four governments in their communications protesting the suspension of the 60 peso charge. Mr. Cruchaga stated to me that he recognizes that his memorandum does not dispose of the diplomatic issue. He said, however, that if and when an agreement is reached between the private interests and the Government for the practical solution of the question, he would then address to the interested diplomats a more comprehensive communication which he hoped would dispose of the diplomatic issue.

We should not, however, consider anything settled in this case until it is actually disposed of and covered by official communications. Therefore, if you decide to await developments before taking further diplomatic action, I hope it will at the same time be recognized that the diplomatic question remains open and that, if it is not satisfactorily disposed of later by a further reply of the Chilean Government, the American Government has an obligation to record its position in unequivocal terms with reference to the breach of an international obligation by the Chilean Government.

Respectfully yours,

W. S. CULBERTSON

[Enclosure—Translation]

The Chilean Ministry for Foreign Affairs to the American Embassy

MEMORANDUM

The Ministry of Foreign Affairs has the honor to send to His Excellency the Ambassador of the United States in Chile the Memo-

⁶⁸ Not printed.

randum of April 27th of the present year, presented by the Minister of Hacienda to His Excellency the President of the Republic for his consideration and which refers to a plan elaborated by the Minister concerning the reorganization of the nitrate industry.

The plan under reference is being studied by the different interests in the industry and its approval, with the small changes that may be adopted, will constitute an equitable settlement of the divergencies of interest which had arisen.

SANTIAGO, May 10, 1933.

[Subenclosure—Memorandum—Translation *]

Fundamental Bases of the Plan of Reconstruction of the Nitrate Industry

(1) The Government, the Compañía de Salitre de Chile, the Lautaro Nitrate Co. and the Compañía Anglo-Chilena are released from and hereby liquidate the obligations which they have between themselves in accordance with the following bases:

a) Juridical, commercial and financial separation of Compañía de Salitre de Chile, the Lautaro and Anglo-Chilena. Each one of said Companies shall recognize its private debts, and the common stock of Lautaro and the stock of Anglo-Chilena shall be exchanged for the common stock of Cosach issued at the time of incorporation of these Companies.

b) Definite suppression of the payment of 60 pesos per ton in the customshouses of the Republic.

c) Delivery to the Government, as contribution for the present calendar year, of the sum of 140,000,000 pesos. In order to complete this sum, there shall be taken into consideration the payments made to the Government or that shall be made on account of export taxes and on account of the Government's share in the new Sales Corporation during the present year.

The Government is released from all obligation in favor of the Compañía de Salitre de Chile, the Lautaro, and Anglo-Chilena on delivery of lands, and the full dominion of the Government is recognized over nitrate reserves existing as of the date when Compañía de Salitre de Chile was organized. The Compañía de Salitre de Chile, the Lautaro and the Anglo-Chilena renounce all claims against the Government on account of taxes paid in excess or for any other reason whatsoever.

* Translation supplied by the editors. A copy of this draft plan had previously been received informally by the American Embassy and transmitted to the Department in despatch No. 1443, April 29 (not printed).

d) Return of the full amount of the secured bonds which the Government has in its possession and renunciation by the Government of credits or claims against the Compañía de Salitre de Chile, the Lautaro, and the Anglo-Chilena on account of pending operations up to this date, including profit balances guaranteed for previous years, indemnity on account of exploitation of Government lands in the Pedro de Valdivia plant, taxes in arrears and *sub-litis*.

e) The Government imposes on the nitrate industry, beginning June 30, 1933, a 25% tax on the profits of the Sales Corporation to which reference is made hereinafter and the creation of which is an integral part of this plan.

f) It is expressly provided that the nitrate companies shall not pay real property tax on shutdown *oficinas* or on Government concessions and port facilities not in use; nor shall they pay profit tax on interest paid by the nitrate industry or on dividends paid to their shareholders.

g) The deeds or documents of incorporation of the Companies, of transference of property, and others which it may be necessary to execute as a part of the reconstruction of the nitrate industry up to June 30, 1934, shall also be exempt from stamp tax.

(2) As of July 1, 1933, a Sales Corporation shall be organized along the following general lines:

a) The Sales Corporation shall be in charge of all sales of nitrate, iodine and by-products of the nitrate industry. The total amount of nitrate produced by all the nitrate companies now in existence or which may be organized in the future, shall be sold by such Corporation.

b) The Corporation shall be administered by a Board on which the producers and the Government shall be represented. The Government shall have the intervention necessary for the supervision of its interests, maintenance of order within the industry, and supervision of the fundamental interests of the country connected with the industry.

c) For the purpose of the nitrate sales that shall be made by the Sales Corporation, the following quotas are fixed: $\frac{2}{3}$ for the Compañía Lautaro and Anglo-Chilena and $\frac{1}{3}$ for the companies incorporated into the Compañía de salitre de Chile. These enterprises shall agree among themselves as to the distribution within their quotas of the amount of Shanks nitrate and Guggenheim nitrate that shall be acquired in order to satisfy the requirements of both products. The quotas that shall be granted to the independent nitrate producers shall be deducted from those mentioned above pro rata with the respective rights.

d) Nitrate stocks belonging to the different companies which form the Compañía de Salitre de Chile, the Lautaro and the Anglo-Chilena,

shall be acquired by the Sales Corporation at the price of £3 per ton f. a. s. (free alongside ship) and shall be paid for in proportion with the sales.

Out of the price obtained in excess of £3 per ton, 25% shall be for the benefit of the Government and 75% for the respective previous owners.

While yearly sales remain under 1,000,000 tons, only 20% of the total amount of sales shall correspond to stocks. When the sales exceed 1,000,000 tons per year, 33% of the excess of 1,000,000 tons shall correspond to sales of stocks.

e) The Sales Corporation shall pay the producers for the nitrate at the industrial cost price controlled by the Government, and without any charge on account of debt services, plus 1.50 dollars per ton of nitrate.

The difference between the price paid to the producers and the sales price, upon deduction of the Corporation expenses, shall be considered to be the profit of the nitrate industry and 25% thereof shall be the Government's share. The remaining 75%, which shall be considered as the profit of the Sales Corporation, shall be distributed among the producers pro rata with their quota, after service of the bonds referred to in the following paragraph.

f) The Sales Corporation shall be empowered to issue bonds up to a total of 51,000,000 dollars which shall be considered as a preferred charge. Forty-eight million (48,000,000) dollars worth of these bonds shall be offered in exchange, at their nominal value, for the total prior secured bonds issued at present. When effecting the exchange of the prior secured bonds, such industrialists as received them in payment of contributions of Companies incorporated into Cosach, shall make the necessary agreements so that the secured bonds received by them at the same time shall be recognized as the private debts of the companies where they originated.

The balance of 3,000,000 dollars shall be applied to the payment of the 3,000,000 dollars furnished to the nitrate industry through the Compañía Anglo-Chilena in December 1931, and appearing on the balance-sheets.

g) The bonds referred to in the previous paragraph shall be entitled to a fixed interest of 4% and an amortization of 2%, the payment of this amortization being subject to the ability of the industry to pay it. These bonds shall accrue interest and amortization as from January 1, 1934.

The interest of the bonds shall be guaranteed by such amount as may be deemed necessary for its service and the Sales Corporation shall be obligated to deposit it in the hands of the Trustees for the new bonds.

h) Before the distribution of the remaining profits is made to the producers after service of the bonds, the Sales Corporation shall adjust the paid cost price by crediting to the producers with the lowest cost the difference between that figure and the one obtained by the producers with the highest cost.

i) The Corporation may not make any payment to the associated producers until the bonds issued by it have been served. This provision does not affect the producers not connected at the present moment with Cosach and the subsidiaries.

(3) The reorganization of the Cosach, Lautaro and Anglo-Chilena Companies shall be made on the basis of a valuation of their respective assets and the issue of bonds and stock to be distributed among their creditors and shareholders in the equitable manner mutually agreed upon among themselves.

The reorganization of Cosach does not exclude the segregation of some of the incorporated companies in order to form private producing enterprises, subject to the Sales Corporation and with a sales quota within the total assigned to Cosach.

The administration of the producing Companies shall be in the hands of the industrialists. The Government shall have the supervision which it has over all the industries of the country.

SANTIAGO, April 27, 1933.

825.6374/1157 : Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, May 23, 1933—11 a. m.

[Received 1:25 p. m.]

69. Referring to Department's telegram No. 21, April 5, 7 p. m.⁷⁰ The President in his address opening the ordinary session of Congress said in defending suspension of the 60 peso charge that the Government should not collect a tax for private interests; that this suspension resulted in friendly observations from foreign governments in reply to which the Government maintained its view that it had no obligation to intervene in the collection of the charge and considered diplomatic interventions improper since there was no denial of justice and the interested parties could have had recourse to the courts. He then referred to the plan of reorganization as having been well received in the newspapers. He justified the action of the Government on the ground of imperious necessity adding, however, that a solution satisfactory for the interests affected was being sought. The Presi-

⁷⁰ Not printed.

dent again supported the Government's nitrate policy on the theory of the illegality of the basic Cosach laws.

By these statements of the President the Chilean Government has now publicly and deliberately rejected the representations made by the four Governments. Again it has violated a friendly understanding to leave the diplomatic situation in *status quo* until we could see whether an agreement can be reached between the Government and the private parties. Again the Government has taken a definite step toward making more effective the repudiation of its international obligation. Moreover, while the plan referred to by the President (see my despatch 1443 ²¹) at one time offered a basis for a business solution the Minister of Finance is now taking the position that the industry should carry no fixed charge and that the bondholders must be content with a first lien on the profits, if any, of the sales corporation. The British issuing houses are disposed to accept this solution. . . . If the Minister of Finance is not now checked, the prior secured bonds will have a position little better than that of unsecured credits and the service will be subject to all the exigencies of Chilean politics, including even the possibility of the abolition of the sales corporation.

Since the Government has stated publicly and officially its stand on the diplomatic phase and has at the same time made it unmistakably clear that it has no intention of recognizing even in a modified form Government obligation in respect to the fixed charge I can see no further gain in delaying further our reply, indeed I can no longer assume the responsibility of recommending such delay. I believe that the American Government, if possible at the same time as the other three Governments, should make a definite reply to the communications of the Chilean Government and give publicity to its position thus definitely placing on record our position in regard to the principle involved. My British colleague has telegraphed his Government that he considers "it would be a mistake to leave the Chilean Government indefinitely in the position to suggest that we have accepted their position as set forth in their notes to us".

CULBERTSON

825.6374/1161a : Telegram

The Secretary of State to the Ambassador in Chile (Culbertson)

WASHINGTON, May 27, 1933—5 p. m.

27. Please call upon the Minister of Foreign Affairs and, without leaving anything in writing, say to him the following:

²¹ Not printed.

That as the Minister knows your Government has heretofore expressed its very earnest hope that the Chilean Government would take appropriate steps to restore an atmosphere of mutual confidence for the resumption of discussions between all interests in the Cosach in an effort to arrive at a solution equitable to all concerned. Your Government was pleased to learn that negotiations to effect a satisfactory solution of the Cosach problem were again under way. In this connection, representatives of the principal creditor interests have recently called at the Department of State and have pointed out that in these negotiations they cannot be expected to agree to the elimination of their contractual guarantee, which in their view is unquestionably valid and founded in Chilean law, unless it is replaced by an adequate substitute. They have reiterated their desire to reach, in collaboration with the Chilean Government, an equitable and mutually satisfactory settlement of the difficult Cosach problem. Your Government sincerely hopes that this may be done and trusts that the Chilean Government will continue to cooperate to that end with the American interests concerned.

The foregoing, of course, is not to be regarded as a reply to the Chilean *aide-mémoire* of April 3, the question of a reply to which we are holding in abeyance for the time being. We feel, however, that the oral and informal action indicated above may be helpful at the present time in contributing to a friendly and satisfactory settlement.

HULL

825.6374/1169

The Ambassador in Chile (Culbertson) to the Secretary of State

No. 1480

SANTIAGO, June 7, 1933.

[Received June 15.]

SIR: I have the honor to transmit herewith a translation of the project of law ⁷² which reduces to legal language the Ross Plan transmitted with my despatch No. 1443 of April 29, 1933.⁷³ This project was submitted by the Minister of Finance to the American and English groups for comment and was sent by them to New York and London. Some further changes in the text have been made today. I am informed that they do not affect matters of substance but I have had no time to make a careful comparison. Mr. Cruchaga, the Minister for Foreign Affairs, told me last night that the Minister of Finance had submitted the draft to President Alessandri and that he (Cruchaga) had been requested to discuss the project with the President today. It appears

⁷² The enclosed "Fourth Draft—June 2nd, 1933" not printed. For text of "Tenth Draft—July 4, 1933," which was submitted to the Chilean Congress, see p. 199.

⁷³ Not printed. For text of plan, see p. 187.

to be the intention of Mr. Ross to seek an agreement between the Government and the private interests on the principal features of the draft law before it is submitted to Congress. In the opinion of Mr. Cruchaga, Congress will approve the project when it is submitted by the Government.

Paragraphs 11 and 12 recognize the prior secured bonds as a preferred debt on the nitrate industry and provide for the payment of the service out of the profits of the industry, if any. Mr. Whelpley, partner of Guggenheim Brothers, regards the plan with favor but the attitude of the National City Bank and Grace & Company is not known at the present time. It is probable that the English group, of which the Anglo-South American Bank is the center, will make some objections to the provisions of the draft law which relate to the stocks of nitrate and therefore affect the provision for the so-called Ramirez debt.

The project provides adequately for the interests of the Chilean Government both from the standpoint of revenue and from the standpoint of supervision over the industry.

The project of law if enacted will not dispose of the diplomatic question raised in the original notes of the four countries and reaffirmed by the British Government in its recent formal communication (see my telegram No. 72 [74], June 2, 5 P. M.).⁷⁴ The project reaffirms the repudiation of the Government's obligation under Decree-Law No. 12 and does not provide for a fixed charge, as a cost item, on the Sales Corporation. It however gives to the prior secured bondholders a preferred position in the distribution of the profits, if any, of the industry and if the private interests should accept this solution of the question we may consider the practical issue satisfactorily disposed of. The American Government, however, should ultimately, as I have indicated in previous despatches, make its position unequivocally clear on the principles raised by the Chilean Government's memorandum of April the 3rd.

Respectfully yours,

W. S. CULBERTSON

825.6374/1168

Messrs. Sullivan & Cromwell to the Secretary of State

NEW YORK, June 14, 1933.

[Received June 15.]

SIR: Referring to your letter of May 29th to us with respect to Anglo-Chilean Consolidated Nitrate Corporation 7% Debentures,⁷⁴

⁷⁴ Not printed.

and the suggestion therein contained that it might be advisable for our clients through a representative in Chile to present to the Chilean Government their views with respect to any action proposed to be taken by the Chilean Government affecting the holders of the above debentures, we beg to advise you that the banking firms in question have today arranged to have a representative of the Company in Chile present to the Chilean Government a protest against a bill about to be introduced by the Chilean Government in the Chilean Congress. We enclose herewith a copy of such protest. A copy of such protest has also been sent today to the Chilean Ambassador in Washington.

In behalf of the banking firms in question, we request that the State Department instruct the American Ambassador in Chile to take such action in support of their protest as the Department shall deem appropriate. Our clients believe, as set forth in the protest that the interests and rights of the American holders of the above-named debentures will be seriously impaired by the proposed action of the Chilean Government and are hopeful that the Department of State will be willing to assist in the protection of the American interests involved.

If there is any further information which you may desire in the matter, we shall, of course, be glad to furnish it.

Yours very truly,

SULLIVAN & CROMWELL

[Enclosure]

Certain American Banking Firms to the Government of Chile

[JUNE 14, 1933.]

The undersigned banking firms which issued to the American public the 7% Debentures of the Anglo-Chilean Consolidated Nitrate Corporation (subsequently assumed by Compañía Salitrera Anglo-Chilena) have only now had an opportunity to examine the bill which the Chilean government proposes to introduce into the Chilean Congress providing for the formation of Chilean Nitrate and Iodine Sales Corporation and for other purposes. On behalf of the holders of these Debentures these banking firms wish to state the following views as to the proposed bill, and to urge that favorable consideration be given by the appropriate authorities of the Chilean government to the points raised below, otherwise it is felt that the interests and rights of the holders of the Anglo-Chilean Debentures will be seriously impaired.

Article 10 provides that the payment of a supplement of \$1.50 per metric ton of nitrate to the producing companies over and above the cost of production, as defined in the bill, shall be subject in effect to the Sales Corporation being able to meet the service of its bonds over

and above the payment of the \$1.50 supplement. It is our view that this payment of \$1.50 which at best represents an inadequate payment for depreciation and depletion, should be unconditional for the purpose of providing some fixed income to the producing companies in order that they may meet, in some part at least, their prior funded obligations.

Article 11 provides that should the producing companies have received during any calendar year a sum equal to that necessary for the service of the Sales Corporation's bonds, 30% of the excess profits of the Sales Corporation shall be utilized for extraordinary amortization of the Sales Corporation's bonds. We consider that this extraordinary amortization should be eliminated since a cumulative sinking fund has already been provided which will retire such bond within twenty-eight years. It would be very unfair to increase this amortization out of funds which should be available to pay interest and amortization on the debt of the producing companies. Under this proposal the extraordinary amortization would become effective before full interest would have been paid upon the debt of the producing companies and before any amortization would be paid on such debt because the total debt of the producing companies is greatly in excess of the bonds to be issued by the Sales Corporation.

Article 12 provides that the service of the bonds of the Sales Corporation shall become a contingent contractual liability of the producing companies. We feel that this places an undue burden upon the producing companies and that the relationship thus created between the producing companies and the holders of the Sales Corporation's bonds is entirely foreign to that previously existing between the producing companies and the holders of Cosach bonds—and is inconsistent with the fundamental principle of the bill which is intended to separate the constituent companies.

Article 15. It is noted that a joint quota of 66.66% has been fixed for Lautaro Nitrate Company Limited and Compañía Salitrera Anglo-Chilena, and it is understood that the division of this global quota between the two companies will be determined by the By-Laws of the Sales Corporation, which will subsequently be drawn. We think it absolutely essential to ensure fair treatment for the interests of holders of Anglo-Chilean Debentures that provision be made in the law whereby adequate opportunity will be given to the representatives of Compañía Salitrera Anglo-Chilena and the holders of its securities to take part in negotiations looking to the fixing of these quotas.

Article 30. We feel that the final sentence of this article should definitely be eliminated, and that no priority should be given to the payment of inter-company debts except for that part of such debts as may be determined by the properly constituted authorities to be

legally entitled to preferential treatment. The adoption of this article in its present form would work great injustice to the holders of Anglo-Chilean debentures.

LEHMAN BROTHERS
BANCAMERICA-BLAIR CORPORATION
GOLDMAN, SACHS & Co.

825.6374/1173a : Telegram

*The Acting Secretary of State to the Ambassador in Chile
(Culbertson)*

WASHINGTON, June 24, 1933—3 p. m.

33. Please send by first air mail latest available text of bill for reorganizing nitrate industry. Communication just received from one of the interests represented refers to "seventh and definitive draft" of which Department has no copy. Keep Department currently advised by air mail of any changes in text.

PHILLIPS

825.6374/1174 : Telegram

*The Ambassador in Chile (Culbertson) to the Acting Secretary
of State*

SANTIAGO, June 26, 1933—11 a. m.

[Received 11:45 a. m.]

80. Referring to Department's telegram 33, June 24, 3 p. m., seventh draft cabled New York latter part last week does not differ fundamentally so far as American interests are concerned from fourth draft. However, eighth draft which will be available this afternoon establishes a preference with regard to the distribution of the proceeds of the sale of nitrate stocks in Chile in favor of holders of unsecured frozen indebtedness with a preference among themselves in favor of the Bank of Chile. In other words it gives these interests a mortgage on nitrate stocks in this country. This draft will be telegraphed to New York and you will receive complete text of latest draft tomorrow. The measure may be sent to Congress this week where the tendency will continue to make changes prejudicial to American interests. It may become necessary for us to adopt a firmer attitude through diplomatic channels in order to protect American interests.

CULBERTSON

825.6374/1175: Telegram

The Ambassador in Chile (Culbertson) to the Secretary of State

SANTIAGO, June 28, 1933—6 p. m.

[Received 6:20 p. m.]

81. Referring to my telegram No. 80, June 26, 11 a. m., Minister of Finance informed representative of National City Bank that article 30 of the eighth draft would be eliminated. I had indicated to the Minister for Foreign Affairs that the proposed discrimination against American interests could not be accepted.

CULBERTSON

825.6374/1168

*The Acting Secretary of State to the Ambassador in Chile
(Culbertson)*

No. 1512

WASHINGTON, June 28, 1933.

SIR: There are transmitted herewith for your information copies of letters under date of May 8⁷⁶ and June 14, 1933,⁷⁷ from Messrs. Sullivan and Cromwell of 48 Wall Street, New York City, with reference to the interests of the owners of the Anglo-Chilean Consolidated Nitrate Corporation 7% Debentures with relation to the reorganization of the nitrate industry in Chile, together with copies of the Department's replies thereto.⁷⁸

In connection with the letter of Messrs. Sullivan and Cromwell above referred to, dated June 14, last, you are authorized, unless you perceive objection thereto, to request the appropriate authorities of the Chilean Government informally to give adequate opportunity to the representative of the Compañía Salitrera Anglo-Chilena and the holders of its securities to present their views with regard to the bill now before the Chilean Congress.

Very truly yours,

For the Acting Secretary of State:

FRANCIS WHITE

825.6374/1178

*The Ambassador in Chile (Culbertson) to the Acting Secretary
of State*

No. 1495

SANTIAGO, July 5, 1933.

[Received July 13.]

SIR: I have the honor to transmit the 9th and 10th drafts⁷⁸ of the project of law for the reorganization of the Chilean nitrate industry.

⁷⁶ Not printed.⁷⁷ *Ante*, p. 193.⁷⁸ Ninth draft not printed.

Draft No. 9 is of interest as regards the change made in Article 30 after the American interests had protested against the special preference which this article established in the 8th draft. (See despatch No. 1490 of June 28, 1933 ⁷⁹). As indicated in my telegram No. 81, June 28, 6 P. M., I had been informed that Article 30 would be completely eliminated but apparently the best compromise possible was the elimination of the special preference in favor of the Bank of Chile and the Edwards Bank. As Article 30 in its present form places all bank creditors on the same footing it has been accepted by the American interests. The 10th draft revises the earlier provisions of Article 35, 36, and 37 relating to the internal reorganization of the Corporation. It contains nothing new affecting American interests.

The 10th draft was yesterday submitted by the Government to Congress together with a lengthy message, a copy of which is enclosed,⁸⁰ outlining the Government's policies in reorganizing the nitrate industry. From the defensive character of the special message it is apparent that the Government anticipates difficulties in obtaining the passage of the measure in its present form. To make the project more palatable great emphasis is placed on the provisions of the bill destined to give the Government a fixed annual return from the nitrate industry. All indications are that the measure will encounter determined opposition in Congress and that the Left elements in particular will endeavor to oppose the project as a part of their policy to embarrass the Alessandri administration. It is not clear just what features of the measure will bear the brunt of the attack but it is to be expected that the bill will undergo some revision before it will be acceptable to the majority in Congress. On the eve of the presentation of the nitrate law President Alessandri's troubles with Congress have been complicated by the revolt of the Radical Party against the President's use of the extraordinary powers and against his failure to disband the Republican Militia. All three Radical members in the Cabinet have resigned and President Alessandri is faced with the problem of seeking the support of the Democratic elements or falling back on a government of the Conservatives backed by the Militia.

As of interest in connection with the project of law, I am transmitting an English translation of a cable sent by the Foreign Minister to the Chilean Ambassador in London ⁷⁹ instructing him to explain to the British nitrate bankers the measures taken by the Government to protect the holders of the prior secured bonds. The telegram emphasizes the fact that the bonds now have the best possible guarantee

⁷⁹ Not printed.

⁸⁰ Message not printed.

under the circumstances and that these bonds remain as a first class obligation on the industry. The telegram is patently a bid by the Chilean Government for the support and cooperation of the English banking houses, having in mind the very positive views expressed on the subject of the 60 peso charge as a guarantee for the prior secured bonds by the British Government as reported in my telegram No. 74, June 2, 5 P. M.⁸¹

Respectfully yours,

W. S. CULBERTSON

[Enclosure—Translation]

Project of Law

(Tenth Draft—July 4, 1933)

I. CREATION—CONSTITUTION—ADMINISTRATION—OBJECT

Art. 1. Because the national interest so demands it, there is created a monopoly of Chilean nitrate and iodine in favor of the legal entity which is established by this Law under the name of "Chilean Nitrate and Iodine Sales Corporation" (*Corporación de Ventas de Salitre y Yodo de Chile*) and consequently the exportation of and trade in these products may be undertaken only by this Corporation.

Nitrate shall be understood to be any salt or mixture of salts containing more than 10% nitrate of soda, and iodine shall be understood to be any iodine product containing more than $\frac{1}{5}$ of 1% of iodine, derived from the treatment in Chile of natural salts or of liquids or solids resulting from such treatment.

Art. 2. The Corporation shall be governed by this Law, and by the By-Laws which shall be issued by the President of the Republic and which must be published in the *Diario Oficial* and inscribed in the Register of Commerce of Santiago, within a period of 30 days from the date of promulgation of the present Law.

The Board of Directors of the Corporation may modify its By-Laws, with the approval of the President of the Republic. Any modification shall be inscribed in the Register of Commerce of Santiago and published in the *Diario Oficial*.

Art. 3. In order to participate in the sales of nitrate and iodine every producing enterprise must declare, in a notarial document, its adherence to the Corporation. This declaration shall be inscribed in the Register of Commerce of Santiago and, when this formality has been fulfilled, such declaring enterprise shall enjoy the rights and shall be subject to the obligations which under this law and the By-Laws correspond to the producing enterprises.

By virtue of adherence, these obligations and rights shall be contractual relations between the Corporation and the adherent enterprises and also between these among themselves.

⁸¹ Not printed.

Art. 4. For all the purposes of this law the 1st of July 1933 shall be considered as the date on which the Corporation shall commence its operations, even though the Corporation may not have been constituted on that date.

The Corporation is established for an indefinite period.

Its dissolution can only take place by resolution of its Board of Directors adopted with the concurring vote of six of the directors representing the industrialists and of the Fiscal directors and approved by a law. Said dissolution shall have no effect if the Corporation has not paid its obligations or reached an agreement with its creditors regarding the payment thereof, without prejudice to the provisions contained in Article 26.

Art. 5. The domicile of the Corporation shall be the City of Santiago. There may be established branches in Chile and abroad. The Board of Directors, with the approval of the President of the Republic, may move the domicile to the City of Valparaiso.

Art. 6. The Corporation shall be administered by a Board of Directors. The Board shall consist of twelve members; the President of the Corporation, three Directors who shall be appointed by the President of the Republic, and eight who shall be appointed by the industrialists in proportion to their sales quotas.

The President shall be a Chilean and shall be elected by the majority of the industrial directors, with the approval of the Fiscal Directors.

Art. 7. For those resolutions which require the favorable vote of the Fiscal Directors, this requisite will be considered as having been complied with if the resolution be carried with the affirmative vote of one of the Directors appointed by the President of the Republic or of all those who may have been present at the meeting, even though all were not present. Consequently the negative vote of one of the Fiscal Directors shall be sufficient so that this requisite shall not be considered as having been complied with.

Art. 8. The principal object of the Corporation shall be to acquire nitrate and iodine from the producing companies and to undertake the exportation, transportation, distribution and sale thereof. It may perform the acts and execute the contracts which may be necessary for the attainment of its objects, and contract every kind of obligations.

II. PURCHASE—SALES—PRICES—QUOTAS—SANCTIONS

Art. 9. The Corporation shall be obligated to purchase from the producing enterprises the nitrate and iodine in Chile and abroad which may belong to them at July 1st, 1933, and the new production as from the same date, under the conditions stipulated in this Law, maintaining the preferred guaranties which Laws Nos. 5133 and 5185 establish.

The purchase of stocks abroad includes the shares of Corporations and the rights of the producing enterprises, representative of these stocks.

The adhering enterprises, while they have in their possession the nitrate and iodine, shall be considered as depositaries.⁸²

There may not be permitted actions of third parties against these products.

Neither can any action be taken regarding the prices of stocks nor on the profits which in accordance with the Law have a special destination.

Art. 10. The stocks of nitrate and iodine on July 1, 1933 shall have the following prices: For nitrate abroad, it shall be the amount of the obligations which are secured by these stocks and the payment of which shall be assumed by the Corporation; iodine abroad, eight shillings, 9.82 pence per kilo; nitrate in Chile three pounds sterling per ton, and iodine in Chile, five shillings, 10.55 pence per kilo.

The prices indicated for stocks of nitrate and iodine in Chile are free alongside ship in nitrate port (f. a. s.) and there shall be deducted from such prices all expenses and shrinkage which may arise in placing the nitrate and iodine alongside ship.

The price for new nitrate and iodine production shall be their industrial cost free alongside ship. This price shall be fixed annually for each producer by the Board of Directors of the Corporation after study of report from the Superintendency of Nitrate and with the concurring vote of the Fiscal Directors.

The term "industrial cost" shall be understood as all the expenses of the respective producing enterprises, including the necessary repairs, but without taking into account amortization of machinery, depletion of grounds, and interest or service of debts, all in accordance with regulations issued by the Board of Directors of the Corporation and approved by the President of the Republic.

To the industrial cost of the nitrate, there shall be added as part of the price, \$1.50 U. S. Cy. per metric ton of nitrate. The payment of all or part of this additional amount to the producing enterprises shall be subordinated to the proviso that it shall not be necessary to increase by that amount the profits of the Corporation destined to the service of the bonds referred to in Article 26, until such service is completed.

In no case may the Corporation fix nor pay as cost price an amount in excess of the sales price, after deducting its expenses and obligations in the same year.

The payment of the price of the nitrate and iodine, from stocks as well as from new production, shall be made by the Corporation after

⁸² File translation of this paragraph revised by the editor.

the liquidation of the respective sales to third parties. The producing enterprises shall have no right to exercise legal action for the cancellation of the sales against the Corporation.

The Corporation may make advances to the producers for production.

Art. 11. The selling prices of nitrate and iodine shall be fixed by the Board with the concurring vote of the Fiscal Directors. The selling price may not be fixed without first insuring, with the difference between said selling price and the average purchase price paid, the service of the bonds referred to in Article 26. However by reason of the conditions of the market and in the same manner, the Board of Directors may fix a lower selling price.

Art. 12. The sales quotas of the producing enterprises shall be fixed by the Board of Directors with the concurring vote of the Fiscal Directors, following the report of the Superintendency of Nitrate. These quotas shall be fixed for periods of five years and shall be calculated on the basis of the productive capacity of the various *oficinas* at the maximum cost accepted by the Corporation for purchases. In order to gauge this capacity there shall be taken into consideration the reserves of each enterprise, only insofar as this may be necessary, for the corresponding period.

Producers starting operations, within any period, in new plants for the exploitation of lands that may not have been considered in the determination of existing quotas shall be entitled to a quota in accordance with their productive capacity on the bases indicated.

The quotas that may be assigned to the companies segregated during the course of such a period, shall be deducted from the quotas of the companies whence these enterprises originated.

The Board of Directors of the Corporation shall, with the concurring vote of the Fiscal Directors, issue the regulations in regard to the fixing of the quotas within the fundamental bases of this Law.

Art. 13. The Board of Directors may cancel, reduce or suspend the right to a quota of producers that do not deliver the quota corresponding to them, increasing pro rata the other quotas. The Board of Directors, may, with the concurring vote of the Fiscal Directors, suspend or reduce the quota of a producer in the event his cost price exceeds by over 20% the average price of the other producers, provided always that there shall not remain a difference of at least 20% from the sales price of the Corporation, after deducting its expenses.

The cancellation, reduction or suspension of quotas shall not affect the liquidation of stocks existing at the time of organization of the Corporation.

Art. 14. Notwithstanding the provisions of Article 12 the initial quotas shall continue in force during a period of seven years, com-

mencing July 1, 1933 and shall be $\frac{1}{3}$ of the total sales for Compañía de Salitre de Chile and $\frac{2}{3}$ of the same total jointly for The Lautaro Nitrate Company Limited and for Compañía Salitrera Anglo-Chilena. The quotas corresponding during this period to other producers, in accordance with what may be determined pursuant to what is stipulated in Article 12, shall be deducted pro rata from the quotas of the others.

Art. 15. With the concurring vote of the Fiscal Directors, the Board of Directors may demand from the adhering enterprises that they distribute among the various nitrate zones the production necessary to satisfy their quotas, and, regarding the type of nitrate, that delivery be made in proportion to the requirements of the market.

Art. 16. From July 1, 1933 the quotas for the sale of iodine shall be the same as those which the respective producers may have for nitrate, and only those producing enterprises that have nitrate sales quotas in the Corporation may participate in sales of iodine.

Nevertheless the holders of stocks of iodine produced prior to July 1, 1929 and whose initial nitrate sales quota is not fixed in this Law, shall, until said stocks have been exhausted, be allowed an iodine quota in accordance with the provisions of Transitory Article 2 of the By-Laws of the Iodine Producers' Association, approved by Law No. 4820.

The Iodine Producers' Association shall be dissolved and liquidated as soon as its stocks have been transferred to the Corporation, which shall succeed the Association in its rights and obligations.

Art. 17. The stocks of nitrate on hand on June 30, 1933 shall be liquidated by selling from said stocks annually not less than 20% nor more than 33% of the total sales.

The Board of Directors may suspend the sale of these stocks or reduce the minimum of 20% in case the final provision of Article 11 should be applied, except in case the interested parties should agree with the Corporation on a reduction of the prices fixed for them by Article 10. While there remain debts pending in favor of the Banco Central de Chile payable with these stocks, the concurrence of this institution shall be sufficient for the reduction of prices.

The maximum of 33% may be exceeded by a resolution of the Board of Directors with the affirmative vote of the Fiscal Directors.

The sale of these stocks shall be included within the quotas of the producing enterprises, but there must be taken into account in the total sales from stocks a quota proportional to the stocks of each company, after the readjustment referred to in the first paragraph of Article 29.

Art. 18. The Board of Directors shall have the right to impose fines and apply penalties upon producers for non-fulfillment of the obliga-

tions provided in this Law, in the By-Laws, or by its own resolutions as provided in said By-Laws.

A copy of these resolutions of the Board, certified as to its authenticity by Notary, shall have executive effect.

III. PROFITS—DISTRIBUTION THEREOF—TAXATION

Art. 19. The profits of the Corporation shall be the difference between the price of nitrate and iodine paid to the producers by the Corporation, as provided in Articles 10 and 17, and the selling prices obtained by the Corporation, after deducting its expenses and all other profits which it may obtain from its secondary activities.

Twenty-five per cent. of said profits shall correspond to the Fiscus as income tax from the nitrate and iodine industry, and shall be paid as earned.

The remaining 75% shall correspond to the producers.

Out of said 75% the Corporation shall pay preferentially the interest and amortization on the bonds referred to in Article 26.

Before making this payment there shall be separated from the profits available therefor, the part of such profits arising out of the sale of stocks of nitrate in Chile on July 1, 1933, which shall only be applied to such service to the extent that the balance of the available profits shall not suffice therefor.

The remainder, after service of the bonds, shall be delivered to the respective producers; but when they have received from this remainder, as profits of a nitrate year, a sum equal to the annual service on the bonds, from the excess, there shall be destined 30% for extraordinary amortization of the said bonds and 70% shall be delivered to the producers.

The profits shall be distributed among the producers pro rata according to their sales quotas, but after adjusting the price already paid to the producers by the Corporation in such manner that the total price per ton of nitrate and per kilo of iodine, whether from stocks or from new production, is the same for all. Any pending differences in any nitrate year on this account shall be adjusted in the subsequent years.

The provisions of this Article in respect of bond service shall apply to the profits of the entire nitrate industry, the sole exception being the profits derived from nitrate lands and nitrate plants not registered as of January 2, 1933 in the name of Compañía de Salitre de Chile, The Lautaro Nitrate Company, Limited or Compañía Salitrera Anglo-Chilena.

Art. 20. In consideration of the tax established in the preceding Article, there shall be exempt from any other tax, whether export, mobilization, income, sales, or any other tax, the operations and

profits of the Corporation or of the producing enterprises adhering thereto, derived from the trade and exploitation of nitrate and iodine. This exemption includes taxes upon interest on obligations or upon quotas or dividends paid by the Corporation or the producing enterprises to their creditors, partners or shareholders.

Shut-down nitrate *oficinas* and their grounds, grounds without manufacturing plants, Fiscal concessions and port works not in use, shall be exempt from all real property taxes.

Art. 21. In order to guarantee the stability of the new system of taxation of the nitrate industry which shall be initiated by the Corporation, the President of the Republic shall execute contracts with the Corporation and with the producing enterprises wherein it shall be stipulated for a term of 40 years from July 1, 1933, that in the event of new legislation increasing the share of the Fiscus in the profits of the nitrate and iodine industry, or establishing new taxes which may make the taxes established in the preceding article more burdensome, the Fiscus shall pay, by way of production royalties, amounts equivalent to such increase and to such new taxes, such royalties to be paid preferentially out of the share of the Fiscus in the above-mentioned profits.

Art. 22. The industrial operations of the adhering producing enterprises not pertinent to the production and handling of nitrate and iodine, such as those arising from the exploitation of other substances contained in their grounds, the industrial by-products plants, mining activities, public railways, and others, shall be subject to the taxes corresponding to such activities pursuant to the general laws, for which purpose separate accounts shall be kept by them therefor, as provided in the regulations issued by the President of the Republic.

The producing enterprises which may be owners of public railways shall credit to them, debiting the industrial cost, the freight monies corresponding to their transported nitrate and iodine in accordance with the general tariffs approved by the President of the Republic.

IV. LIQUIDATION WITH THE FISCUS—COMMON OBLIGATIONS OF THE NITRATE INDUSTRY

Art. 23. The Fiscus shall receive from the nitrate and iodine industry during the year 1933, the sum of \$140,000,000 pesos. As part payment of this sum of \$140,000,000 pesos, there will be considered the amounts received by the Fiscus, by way of export duties on nitrate and iodine, the share of the Fiscus in profits under operating contracts with nitrate enterprises, the Fiscal real property taxes, income taxes and indemnities for occupancy of Fiscal grounds paid by the nitrate enterprises, all during the present calendar year, and one-half of the 25% share of the Fiscus in the profits of the Corporation during the nitrate year beginning July 1, 1933.

The Corporation is hereby authorized to contract such obligations as may be necessary to complete the payment of said \$140,000,000 pesos prior to December 31st next.

During the present calendar year, there shall be applied against such \$140,000,000 pesos or to cancel any obligations contracted therefor by the Corporation, the profits of the Corporation corresponding to the industrialists.

If the profits destined to the payment of such obligations should not be sufficient, the sums which the Corporation must pay to the producing enterprises for their stocks of nitrate on hand in Chile, pursuant to the provisions of Articles 10, 17, and 19, shall be used for the payment thereof, after payment of the obligations referred to in Article 28.

In readjusting the position of the producing enterprises between themselves, these payments shall be taken into consideration so that each enterprise shall contribute in the proportion of the sales quota which corresponds to it.

Art. 24. In consideration of the provisions of Decree No. 1 of January 2, 1933, issued by the Ministry of Finance and of law No. 5133 of February 2, 1933, which recognized the nullity of legal non-existence of the Compañía de Salitre de Chile the reciprocal obligations arising out of the situation *de facto* as between the Fiscus and the said Company are terminated. Consequently the Treasurer General of the Republic shall destroy the certificates of bonds and shares received from Compañía de Salitre de Chile.

Art. 25. There are definitely and reciprocally cancelled all rights or actions for indemnity of occupation and exploitation of Fiscal lands and for contributions in arrears, including the *sub-litis* for periods prior to December 31, 1932, owing by Compañía de Salitre de Chile, The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena and for taxes paid in excess or bonuses not paid by the Fiscus to the above companies.

Art. 26. The Corporation shall recognize as its own the so-called Prior Secured Bonds issued by Compañía de Salitre de Chile in accordance with the contracts dated February 28, 1931, but it shall only pay the service and amortization on those bonds, the holders of which shall accept the modifications established in this law and in the contracts which the Corporation may enter into with the respective Trustees or with the new Trustees that may be designated for their service, and renounce all rights arising from the balance of interest and amortization in arrears for the period prior to January 1, 1934, after distributing the funds in the hands of the Trustees.

All of the above shall be left on record in the bonds themselves or in those which may be issued in replacement thereof.

The Corporation shall also issue bonds with rights equal to those that will be recognized for said Prior Secured Bonds, in the amount of three million dollars, in cancellation of the loans for a like sum made through Compañía Salitrera Anglo-Chilena for the joint operations of this Company, of Compañía de Salitre de Chile, and of The Lautaro Nitrate Company, Limited during the period December, 1931 to March 1932.

The profits from the nitrate and iodine extracted from grounds that at January 2, 1933 were inscribed in the name of any of the said companies, or which may be produced in plants belonging to any one of the companies named on the same date, shall be subject to the payment of these bonds until their total cancellation, in the manner established in this law.

The service of these bonds shall be 6% per year on the nominal amount issued and shall accrue as from January 1st 1934. This 6% shall be applied to pay at the end of every six months the annual interest which shall be stipulated on the capital owing, and the balance to amortization without prejudice to the extraordinary amortization referred to in Article 19.

The Corporation is empowered to make with the Trustees of these bonds the respective contracts, stating therein the interest and their other terms and conditions and giving such guarantees as may be adequate for the service thereof, including the provision to deposit in the hands of the Trustees, as and when obtained, 75% of the profits of the Corporation resulting from nitrate and iodine subject to this obligation, until the service corresponding to each year and such balances as may remain owing from previous years shall have been completed within each year.

In case of dissolution of the Corporation before the cancellation of the bonds, these obligations shall be assumed by Compañía de Salitre de Chile in Liquidation, The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena and their successors to the grounds and *oficinas* liable for such payment, who shall be obligated to make the corresponding deposit in the hands of the Trustees. These companies shall be party to the contracts entered into between the Corporation and the Trustees, binding themselves and their successors not to ship any nitrate and iodine subject to the above-mentioned obligation, without previously proving, in the manner to be set forth in the respective contract, the delivery of the quota to them corresponding on account of the service of these bonds in accordance with the bases set forth in the contract itself.

These obligations shall be considered part of any transfer which should be made of lands and *oficinas* subject to its payment, annotations being made in the margin of the corresponding inscription and in the Register of Mortgages.

Art. 27. The obligations represented at present by Secured Bonds issued by Compañía de Salitre de Chile in payment of debts or contributions in accordance with the contract of February 28, 1931 will be taken over, as of the date of organization of the Corporation, as private obligations, by the Companies from which they originated or by the companies succeeding them in the ownership of their assets, without the guaranties with which they were issued.

The holders of Prior Secured Bonds which were issued in payment of contributions or debts, simultaneously with a further amount of Secured Bonds, shall deliver to the Corporation, duly cancelled, their corresponding quotas of these Secured Bonds, at the time of making the acceptance and renouncement of the rights referred to in Article 26, unless such quota should have previously been delivered to the Corporation by the holders thereof.

The Corporation shall deliver certificates in exchange for the Secured Bonds returned to it, setting forth the amount, the Company from which they originated, and the person who made the delivery, and shall give notice to the Company to which the obligation corresponds, in accordance with the first paragraph of this Article, for the purpose of the recognition of the respective quota in favor of the person who may have delivered the bonds representative of such obligations.

Art. 28. The Corporation shall pay for account of Compañía de Salitre de Chile in Liquidation, of The Lautaro Nitrate Company, Limited and of Compañía Salitrera Anglo-Chilena the obligations contracted in favor of the Banco Central de Chile by said enterprises prior to the Corporation's beginning operations. The Corporation shall make this payment, applying thereto until completion thereof, the value it must pay to said Companies for their stocks of nitrate in Chile as provided in Articles 10, 17, and 19, without prejudice to the readjustments as between themselves for the proportion of said obligations corresponding to each of them.

Art. 29. As of the date when the Corporation shall begin its operations, there shall be made a liquidation and readjustment of the situation between Compañía de Salitre de Chile, The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena in order to establish the stocks of nitrate and iodine in Chile and the rights in stocks abroad which belong to each Company, taking into account the sales in excess of their respective quotas which may have been made in previous periods.

The balances which remain pending after this readjustment shall be covered, destining to them, after payment of the obligations referred to in Articles 23 and 28, the price which the Corporation must pay for stocks of nitrate in Chile in accordance with the provisions of Articles 10, 17 and 19.

These balances shall remain in the hands of the Corporation for account of the respective companies and at the corresponding rate of interest, while the Corporation needs to dispose of their values for its operations and in particular to effect the advances referred to in the final paragraph of Article 10.

Art. 30. The balance of prices and profits corresponding to the stocks of nitrate in Chile at July 1, 1933, which in accordance with Articles 10, 17 and 19 should be delivered to the producing companies after payment of the preferential obligations referred to in those articles and in Nos. 23, 28 and 29, shall be destined to be credited to the capital of unguaranteed obligations which they may recognize, originating from acceptance credits, promissory notes, drafts, and overdrafts granted for the production and operations of them or their predecessors.

V. LIQUIDATION OF COMPAÑÍA DE SALITRE DE CHILE—GENERAL AND TRANSITORY PROVISIONS

Art. 31. With the concurring vote of the Fiscal Directors, the Corporation shall be authorized to acquire the certificates of the public debt of Chile in foreign currency. The Fiscus shall receive, in payment of its participation in the Corporation, these certificates calculated at the price at which they were acquired, plus interest on this price which the Corporation may have incurred up to moment of payment.

Art. 32. The Corporation is hereby included among the organizations authorized to obtain credits in accordance with the provisions of Law No. 5185. These credits shall be considered as being within the quota set aside by this Law for Compañía de Salitre de Chile in Liquidation.

Art. 33. All questions arising between the Corporation and the adhering companies shall be decided by Arbitration Courts, constituted in the manner established in the By-Laws.

Art. 34. The President of the Republic is authorized to modify the powers and duties of the Nitrate Superintendency, in accordance with the obligations imposed upon him by the present Law and by the Regulations which may be subsequently enacted.

The enterprises shall furnish the Superintendency with any information it may solicit and will give the personnel of the Superintendency the necessary facilities for the examination of the books and for making any verifications whatever their nature. The enterprises shall be obliged to carry their principal books of account in Chile and in Spanish.

The President of the Republic, after hearing the Superintendency, shall be empowered to apply fines, up to 20,000 pesos, for violations of provisions of the present article.

The information gathered by the Superintendency shall be considered as strictly confidential.

Art. 35. The enterprises or companies who desire to withdraw the assets and liabilities which they may have contributed to Compañía de Salitre de Chile, may do so in accordance with the following provisions:

a) The requests for withdrawal shall be presented to the Liquidating Commission of Compañía de Salitre de Chile within the limited term of 30 days computed from 90 days after the date of publication, in the *Diario Oficial*, of the By-Laws of the Corporation. The said requests shall be brought to the knowledge of the creditors of the petitioner previous to the organization of the Company, and in order for them to be considered they must be accompanied by a guaranty which the Liquidating Commission in its discretion deems sufficient to insure compliance with all the obligations which the petitioner must assume on account of the withdrawal. If the Liquidating Commission by unanimity of its members should declare the guaranty offered as insufficient, and the said guaranty shall not be completed or improved in this manner and under the conditions which the Liquidating Commission may determine, within the period specified by it, the petition for withdrawal shall be considered as having never been presented.

b) The obligations contracted by the Compañía de Salitre de Chile shall affect the constituent companies withdrawing therefrom in the proportional part which the Liquidating Commission assigns to them. The fact of their withdrawal shall not alter the acts and contracts executed by the Liquidating Commission of Compañía de Salitre de Chile in conformity with the provisions of the law and of Law No. 5133, nor the guarantees established by the latter and by Law No. 5185 in favor of the credits obtained for the administration and liquidation of the Compañía de Salitre de Chile.

Art. 36. The Liquidating Commission of Compañía de Salitre de Chile is expressly authorized to sign all contracts and execute the necessary acts to liquidate the relations which have existed between Compañía de Salitre de Chile, The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena, returning, in exchange for the corresponding ordinary shares of Compañía de Salitre de Chile, the shares of Compañía Salitrera Anglo-Chilena and the ordinary shares of The Lautaro Nitrate Company, Limited, said companies recognizing the obligations corresponding to them in accordance with the provisions of this Law and the provisions agreed to in the respective contracts.

Art. 37. The remaining assets of Compañía de Salitre de Chile in Liquidation after the withdrawal of the enterprises exercising the right granted them by Article 35, and after eliminating from such assets the ordinary shares of The Lautaro Nitrate Company, Limited and of Compañía Salitrera Anglo-Chilena, shall be distributed among its creditors, until completion of its credits, excepting the creditors in

respect of the obligations corresponding to the Prior Secured Bonds, in such manner and proportion as may be determined by the Liquidating Commission, the obligations affecting the said assets being maintained in accordance with this Law.

This distribution must be approved by the above-mentioned creditors. For this purpose, the Liquidating Commission shall invite them to a general meeting which shall be held in Santiago 30 days after the notice convening said meeting, which shall be published twice in newspapers in Santiago, New York and London. The meeting shall be held with those creditors who may attend and the resolutions which may be adopted shall be binding on all the creditors if approved by a majority of 51% of the amount of the credits present. The balance remaining after the above-mentioned distribution shall be distributed among the shareholders in corresponding proportion.

In order to compute this majority the credits in foreign currency shall be taken at the official rate of exchange of the Banco Central de Chile.

Art. 38. In connection with the reconstruction of the nitrate industry, the enterprises adhering to the Corporation shall have power to issue preferred shares, shares without par value, debentures and obligations of every kind without special guaranty, secured with the rights corresponding to such enterprises against the Corporation, or with any other guaranty. There shall not be applicable to the issue of these bonds and debentures the provisions relating to their issuance, nor the provisions relating to security, established in Law 4657.

Art. 39. The enterprises adhering to the Corporation shall give preference to the products, fuel, manufactured articles, materials and merchandise of national production, conditions being equal to those of foreign products, landed in nitrate ports, after payment of custom's duties.

Only in qualified cases and with the agreement of the Fiscal Directors in the Board of Directors of the Corporation given in the manner which the Regulations may determine, may the adherent enterprises acquire abroad the articles to which the preceding paragraph refers.

Art. 40. The term referred to in Article 8 of Law 5133 is extended to June 30, 1934.

Art. 41. The deeds and documents of organization of the Corporation or of new companies, for the transfer of properties, for the issuance of stocks and bonds and such other documents as it may be necessary to execute as part of the reconstruction of the nitrate industry, up to December 31, 1934, shall be exempt from the payment of stamp taxes. Nor shall any tax be paid, up to the same date, on the transfer of real and personal property whenever such transfer be made by reason of the reconstruction of the nitrate industry.

Art. 42. The Board of Directors of the Corporation shall be designated in the manner established in Article 6, after Compañía de Salitre de Chile in Liquidation, The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena shall adhere to the Corporation as mentioned in Article 3. Meanwhile the Liquidating Commission of Compañía de Salitre de Chile shall have the representation of the Corporation as a provisional Board of Directors as from July 1, 1933.

Art. 43. The Liquidating Commission of Compañía de Salitre de Chile in representation of said Company shall adhere as stipulated in Article 3 within the term of 10 days after the adherence to the Corporation of The Lautaro Nitrate Company, Limited and Compañía Salitrera Anglo-Chilena. The said commission is expressly empowered to execute all contracts which may be necessary in order to carry out this Law.

Art. 44. The payments referred to in Article 23 shall not be considered as expenses of production of nitrate in Chile for the purpose of the provisions contained in Article 6 of Law 5107.

Art. 45. The words *Asociación de Productores de Salitre de Chile* are replaced by *Corporación de Ventas de Salitre y Yodo de Chile* in the first paragraph of Article 39 of the Organic Decree-Law of the Banco Central de Chile No. 486, of August 21, 1925, amended by Decree-Law Nos. 575 of September 29, 1925 and 133 of April 30, 1931.

Art. 46. The Delegate appointed by the Banco Central to Compañía de Salitre de Chile in Liquidation by virtue of Article 20 of Law No. 5185 shall also be a delegate to the Sales Corporation with equal attributes.

Art. 47. This Law shall take effect from the day of its publication in the *Diario Oficial*.

825.6374/1185

The Ambassador in Chile (Culbertson) to the Acting Secretary of State

No. 1507

SANTIAGO, August 1, 1933.

[Received August 10.]

SIR: I have the honor to acknowledge the Department's instruction No. 1512 of June 28, 1933, transmitting certain correspondence with reference to the interests of the holders of the Anglo-Chilean Consolidated Nitrate Corporation 20 year 7% Sinking Fund Debenture bonds.

The question of the protection of these bonds totalling \$15,000,000 has been presented on various occasions to the Minister of Finance and

the Commission of Liquidators by the President of the Anglo-Chilean Consolidated Nitrate Corporation, Mr. Medley G. B. Whelpley. As will be seen from the copies of the enclosed correspondence exchanged between Mr. Whelpley and the Government ⁸³ on behalf of the issuing bankers these representations resulted in certain minor modifications in the project of law. However, as the issuing houses still maintain that the nitrate bill contains many features inequitable to the interests they represent and as their last protest remains unanswered, I deemed it advisable to supplement Mr. Whelpley's efforts by a talk with the Minister for Foreign Affairs. Accordingly I informally expressed our interest that consideration be given to the petition of the issuing bankers in behalf of the holders of the 7% debentures of the Anglo-Chilena. I mentioned in particular the interests of Lehman Brothers, Bancamerica-Blair Corporation, and Goldman, Sachs & Company.

Respectfully yours,

W. S. CULBERTSON

825.6374/1200

The Chargé in Chile (Norweb) to the Secretary of State

No. 1576

SANTIAGO, November 8, 1933.

[Received November 16.]

SIR: Continuing my despatch No. 1571, November 4, 1933,⁸³ I have the honor to transmit the text of the nitrate bill as approved last night by the Lower House.⁸³ On account of its length a complete translation will not be available for today's pouch but will be sent in the course of the next few days. The project now goes to the Senate where it will be discussed in committee and where the Government will have an opportunity to urge Senate support for the elimination of those features of the House bill which it and the industrialists find unacceptable. The passage of the measure through the Senate and its inevitable return to the House for reconsideration will require possibly another month.

In its present form the nitrate bill raises three main questions of broad policy of special concern to the foreign nitrate interests. They involve: (1) a state monopoly, (2) the composition of the Board of Directors, and (3) the taxation system.

(1) With reference to the national monopoly (*estanco*), Article 1 has been revised to establish a definite term of 35 years for the duration of the lease. At the same time the provision in Article 2 of the original draft, permitting dissolution of the lease simply by legislation, has been omitted. These modifications mean that the contract between

⁸³ Not printed.

the industrialists and the Government can be terminated only by agreement among the contracting parties, a situation giving a degree of stability to the operations of the industrialists which was lacking in the original draft of the House committee. However, the House bill still fails to indicate the intention of Congress as to what will happen at the end of the 35 year period to the "right of commerce" which is reserved to the Government under the monopoly. As a measure of protection the industrialists feel it is important for the law to state expressly that at the termination of the lease the "right of commerce" should revert to the companies. Failing some safeguarding assurance on this point the producers fear that confiscation by the Government of the company's right of commerce might result without any provision being made for adequate compensation.

(2) The Board of Directors. Intimately associated with the producers' problems under the monopoly is the question of the composition of the Board of Directors. In the original project a majority of the Board was to be appointed by the industrialists. As revised by the House, however, control is to rest with the Government. Should this provision stand, it is not difficult to imagine a situation whereby a hostile or irresponsible government might, through its preponderance on the Board, influence a majority vote of the Directorate to force the abrogation of the lease under the provisions of Article 1 of the proposed bill. The industrialists feel that adequate protection should be given against such a contingency which would mean disaster for their huge stake in the nitrate industry.

(3) The third major problem arising from the modifications introduced by the House, concerns the proposal to alter the original plan for the Government to receive a straight 25% of the profits of the industry by the introduction of a sliding scale of government participation in the profits. This new feature is nothing more than a form of income tax and would, if it stands, result in diverting to the benefit of the Government a disproportionate share of the profits which otherwise could be used to cancel the legitimate debts of the industry.

Serious as these difficulties are, both the Government and the private interests appear relieved that an actively hostile minority in the Lower House was prevented from carrying out its threat to wreck the bill. This fear of what the House might do has been replaced by a feeling of confidence that the crisis has passed and that it will be possible to work out in the Senate a measure reasonably acceptable to all.

Respectfully yours,

R. HENRY NORWEE

825.6374/1206

*The Ambassador in Chile (Sevier) to the Acting Secretary
of State*

No. 11

SANTIAGO, December 6, 1933.

[Received December 14.]

SIR: I have the honor to refer to this Embassy's despatch No. 1580 of November 15, 1933,⁸⁵ reporting the status of the nitrate legislation and to inform the Department that the project was reported out of the Senate Finance Committee some days ago and is now being debated on the floor of the Senate. As this is being written the bill is still being subjected to a general debate, the Senate not yet having started to vote on the measure article by article. As the Department will recall, the amendments made by the Senate Finance Committee were remedial in correcting the unworkable features which had been introduced in the Lower House. The trend in the Senate is of course more conservative than in the Chamber of Deputies and in addition the Government has a larger working majority so that it seems now as though the law will perhaps be fairly acceptable to private interests when it reaches its final form.

The efforts of the American interests to obtain favorable legislation have been recently seconded by the British. The British of course were active with us in making representations when the 60 pesos per ton guarantee was arbitrarily done away with by the Chilean Government. Since that time, however, when it appeared as though private interests were working out some sort of solution in co-operation with the Government, they, like us, have refrained from very active participation in the matter. Recently British and American interests in Chile have made some effort to induce the British Government to bring some pressure to forestall the passing of an unsatisfactory nitrate law. The British Chargé d'Affaires has informed me that he recently received a cable from his Government instructing him to say to the Foreign Office that his Government is watching with great interest the course of the nitrate bill and that while it appreciated the great difficulties of drafting this legislation it hopes that the objectionable features which now appear in the bill will be removed so that it will make it unnecessary for the British Government later on to make any representations. As of possible interest to the Department there is enclosed a strictly confidential memorandum furnished the Embassy by the American interests in the Cosach in Liquidation,⁸⁵ giving the texts of certain cables and memoranda dealing with the efforts being made to prevent the enactment of hostile nitrate legislation.

⁸⁵ Not printed.

It is still too early to feel certain as to the final form in which the law will be passed, but it appears now as though private interests will be resourceful enough to work out with the Government a project which it will be possible for them to accept. I shall continue to keep the Department currently informed concerning developments.

Respectfully yours,

HAL SEVIER

825.6374/1210 : Telegram

The Ambassador in Chile (Sevier) to the Acting Secretary of State

SANTIAGO, January 8, 1934—11 a. m.

[Received January 8—10 a. m.]

2. Department's telegram No. 8, January 6, 4 p. m.⁸⁷ Copy of nitrate bill as finally approved by Congress was forwarded by air mail January 6th.⁸⁸ Representative of American interests says the plan appears to be a workable foundation but it is not certain how it will work out in reorganization of the capital structure with relation to the various classes of bondholders. He adds that he is recommending that no assistance through diplomatic channels be requested at present. Repeat to Department of Commerce.

SEVIER

⁸⁷ Not printed.

⁸⁸ For text of law No. 5350, see *Diario Oficial* No. 16,767, January 8, 1934.

COLOMBIA

UNPERFECTED RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES AND COLOMBIA, SIGNED DECEMBER 15, 1933

611.2131/30 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, July 12, 1933—6 p. m.

63. I informed the Colombian Minister ¹ today that the Department would like to open conversations with him of a purely exploratory character to ascertain whether we could beneficially negotiate a reciprocal trade agreement with his Government; such an agreement would, of course, have to be submitted to the Senate for approval. The Minister said that he was ready to explore this subject with us; that he would send a telegram to his Government this afternoon in regard to the matter.

You may bring this informally to the attention of the Minister for Foreign Affairs ² and report promptly his comments.

PHILLIPS

611.2131/20 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, July 13, 1933—7 p. m.

[Received 9:50 p. m.]

61. Department's 63, July 12, 6 p. m. Minister for Foreign Affairs expressed a desire to negotiate mutually beneficial trade agreement pointing out special nature of commercial relations of the two countries and obsolete character of existing commercial treaty.³ He referred to suggestions made some time ago regarding tariff and exchange control concessions to the United States.

He remarked that Colombian Government had hoped any trade negotiations would take place in Bogotá but that Washington would be perfectly satisfactory; he understood our natural preference for latter in view of simultaneous negotiations there with other countries.

DAWSON

¹ Fabio Lozano T.

² Roberto Urdaneta Arbeláez.

³ Treaty of December 12, 1846, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 5, p. 115.

611.2131/21 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, July 17, 1933—3 p. m.

[Received 7:02 p. m.]

64. Department's 63, July 12, 6 p. m. In conversation with me today Olaya⁴ expressed great interest in proposed commercial treaty and promised complete cooperation. He presumes desire of the Department is to negotiate specialized trade agreement (not merely general treaty of commerce), in which case he would like to send one or more technical advisers to assist Lozano. He asks when the Department desires conversations to begin.

DAWSON

611.2131/21 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, July 20, 1933—6 p. m.

65. Your 64, July 17, 3 p. m. Department will be ready to begin conversations by the time Olaya's technical advisers can arrive here.

PHILLIPS

611.2131/24 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, July 21, 1933—6 p. m.

[Received 6:55 p. m.]

66. Department's 65, July 20, 6 p. m. With a view to choosing properly equipped advisers Olaya would like memorandum outlining general points Department wishes to discuss. Experts can then be appointed and leave immediately.

DAWSON

611.2131/24 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, July 22, 1933—2 p. m.

66. Your 66, July 21, 6 p. m. Department contemplates negotiations with Colombia involving examination of all of the principal items entering into trade between the two countries. It is desirable that negotiators have technical advisers equipped to consider definitively

⁴ Enrique Olaya-Herrera, President of Colombia.

reductions which Colombia is prepared to accord to American products in return for leading Colombian products remaining on the free list. This seems fair in view of the fact that exports from Colombia to United States very greatly exceed imports into Colombia from the United States.

Please inform Department as to prospects of extension of law authorizing the President to enter into reciprocity agreements beyond July 31.⁵

Department will be prepared to open conversations as soon as the Colombian experts arrive.

CARR

611.2131/34

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5741

BOGOTÁ, July 26, 1933.

[Received August 2.]

SIR: I have the honor to refer to the Department's telegram No. 63 of July 12, 6 p. m., and subsequent correspondence concerning the proposed conversations between representatives of the Governments of the United States and Colombia to ascertain whether a reciprocal trade agreement of mutual benefit to the two countries can be negotiated.

President Olaya informed me this morning that he would hold one or more meetings early next week with the Ministers of Finance and Public Credit and of Foreign Affairs to decide what reductions in its customs tariff could be accorded by the Colombian Government to American products in return for a commitment on the part of the American Government to keep the leading Colombian products imported by the United States on the free list. Dr. Olaya said that it would be impracticable for him to go into the subject adequately with the two ministers during the remainder of this week inasmuch as the Minister of Finance must appear each day before the House of Representatives in connection with the prolonged debate on the financial policies of the administration which is under way there.

The President stated that he thought it would be necessary to send only one expert to Washington in connection with the conversations. He said that he expected to give this representative complete and detailed instructions as to the preferential treatment which Colombia would be prepared to grant so that reference to Bogotá for decisions would be reduced to a minimum. He indicated that the expert sent

⁵ By telegram No. 67, July 24, noon, the Chargé in Colombia informed the Department that "extension not contemplated." (611.2131/25)

from Bogotá would, to all intents and purposes, carry on the negotiations himself rather than merely assist the Colombian Minister to the United States.

Dr. Olaya commented that he would like to avoid submitting the proposed reciprocal trade agreement to the Colombian Congress for ratification, if possible. He said that he had in mind the possibility of asking Congress to give him authority to establish a system of maximum and minimum tariffs, the maximum tariff to be the one provided by ordinary legislation and the minimum tariff a certain percentage lower. The President expressed the belief that it might be possible to have the bill for this purpose worded in such a manner that if it became law the tariff concessions granted to the United States under a reciprocal trade agreement could be put into effect without ratification by Congress. The Department will recall that Law 135 of 1931 (transmitted with the Legation's despatch No. 3531 of December 22, 1931⁶) authorized a system of maximum and minimum tariffs but with the minimum tariff the normal one and the maximum tariff 25% higher.

Respectfully yours,

ALLAN DAWSON

611.2131/35 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

Bogotá, August 2, 1933—6 p. m.

[Received 8:10 p. m.]

69. Legation's 66, July 21, 6 p. m. Pomponio Guzmán⁷ and an official of Ministry of Finance, not yet designated, will assist Lozano. Will arrive Washington in about 2 weeks.

DAWSON

611.2131/40 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

Bogotá, August 14, 1933—5 p. m.

[Received 8:25 p. m.]

73. Legation's 72, August 14, 11 a. m.⁶ Lozano authorized today to enter into exploratory conversations pending arrival advisers.

DAWSON

⁶ Not printed.

⁷ Former Minister of Finance.

611.2131/71

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5776

BOGOTÁ, August 15, 1933.

[Received August 31.]

SIR: Referring to recent correspondence concerning the proposed reciprocal trade agreement between the United States and Colombia, I have the honor to transmit herewith translations of a petition^a submitted on August 8, 1933, to President Olaya and the Minister of Finance and Public Credit by the National Federation of Industrialists asking that the increased maximum tariff provided by Law 135 of 1931 (Legation's despatch No. 3531 of December 22, 1931^a) be put into effect, that the Federation be consulted in deciding on tariff changes, and that Dr. Arturo Hernández, a member of the Supreme Customs Tribunal, known for his protectionist sentiments, be appointed one of the Colombian technical experts in the negotiations for the proposed agreement.

This document is concrete evidence of the fact that Colombian manufacturers who have established or increased their business under the protection of Colombia's high and artificial tariff barriers are becoming seriously disturbed at the possibility that the proposed trade agreement will adversely affect them. It is generally taken for granted that the United States will demand reduction of the duties on a number of manufactured items in return for a promise to maintain coffee on the American free list.

While the industrialist class in Colombia is a comparatively small one it is influential beyond its numbers by reason of comparative wealth. There seems little doubt, however, as to the position which the average public-spirited Colombian would take if a choice had to be made between protecting the coffee industry by securing the freedom of its principal market and protecting infant manufacturers by high tariffs. Much more Colombian capital is invested in coffee than in manufacturing and a much larger percentage of the population is dependent for its subsistence upon the former than upon the latter.

A leading coffee grower criticised the attitude of the industrialists as extremely short-sighted in conversation with me last week. He expressed the belief that if a duty were placed by the United States on coffee the principal result would be a reduction of the price paid the Latin American producer rather than an increase in that charged the American consumer. He argued that manufactured articles, domestic as well as imported, are bought in Colombia largely from coffee profits and that an American duty on coffee would thus be felt not only by the coffee industry but by the whole structure of Colom-

^a Not printed.

bian national economy, including domestic manufacturers. This line of thought is probably typical.

On the other hand, advocates of high protection profess to consider: (1) that there is little chance that the American Congress would place a duty on coffee and that, consequently, substantial tariff concessions by Colombia would be a gift of something for nothing and (2) that even if a duty were established its effect on Colombia would be much less than is generally thought.

Respectfully yours,

ALLAN DAWSON

611.2131/45 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

Bogotá, August 19, 1933—8 p. m.

[Received 9:15 p. m.]

74. Legation's 73, August 14, 5 p. m. Francisco Restrepo Plata and Arturo Hernández, members of the Supreme Customs Tribunal, are being appointed advisers in lieu of Guzmán and will leave shortly. Publicity not yet given here.

DAWSON

611.2131/54

*Statement by the Acting Secretary of State Issued to the Press,
August 22, 1933*

Preliminary conversations were initiated this morning with the Colombian Minister to determine whether it will be mutually advantageous to negotiate a trade agreement. These discussions with the Colombian Minister are informal since they are of an exploratory nature to determine whether a trade agreement will benefit both parties concerned.

At the meeting this morning general views were exchanged on the nature, value, and volume of trade between the two countries. During the next few days these views will be studied and a further conversation is planned for next Thursday.

611.2131/78a

*Memorandum Handed to the Colombian Minister (Lozano) by the
Assistant Secretary of State (Caffery), August 22, 1933*

In handing to the Minister of Colombia a proposal designed to serve as the basis of a reciprocity agreement between the United States and

Colombia, it is desired to call attention to certain trade figures which throw light upon the two schedules^o included in the text.

In 1931, according to figures compiled by the United States, exports to Colombia amounted to \$16,052,000, of which it is estimated that \$5,083,000 or 31.7 per cent., consisted of products of the varieties on which, under Schedule 1 of the Agreement, Colombia is asked to reduce its tariff rates. The corresponding figures of the Colombian customs authorities are 17,196,000 pesos, of which 5,722,000, or 33.3 per cent., represent the commodities upon which reductions are asked.

For 1932, figures of the United States export trade, but not of the Colombian import trade, are available. They indicate that, in 1932, exports from the United States to Colombia amounted to \$10,670,000, of which \$1,802,000, or 16.9 per cent., represented the products on behalf of which reduced tariffs are asked.

The foregoing figures are in sharp contrast to the corresponding figures illustrating Schedule 2, which contains the commodities which the United States agrees to continue on the free list, so long as the Agreement remains in force.

In 1931 the United States imported from Colombia products to the value of \$75,481,000, of which \$74,843,000, or 99.2 percent, represent the commodities which are included in Schedule 2. In 1932, imports into the United States from Colombia amounted to \$60,845,000, of which \$57,227,000, or 94.1 per cent., were the products which the United States proposes to keep on the free list when imported from Colombia.

It will be interesting, in this connection, to recall the fact that, in 1931, the total imports of Colombia, in United States dollars, amounted to \$39,640,000, of which \$16,505,000, or 41.9 per cent., came from the United States. The percentage remained approximately the same for 1932, though the value of the products in dollars declined considerably. Of the total exports of Colombia, in 1931, which were valued at \$94,647,000, the exports to the United States amounted to 83.1 per cent., or \$78,639,000. The corresponding figures for 1932 show total exports of \$67,067,000, of which \$51,497,000, or 76.7 percent, were to the United States.

WASHINGTON, August 22, 1933.

[Enclosure ^{aa}]

American Draft of Reciprocal Trade Agreement

The President of the United States of America and the President of the Republic of Colombia, desiring to promote trade between the

^o Schedules not printed.

^{aa} Filed separately under 611.2131/69a.

United States of America and the Republic of Colombia, have arrived at the following agreement:

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, described in Schedule 1 annexed hereto and made a part of this agreement, shall, when imported into the Republic of Colombia, be exempt from customs duties and import charges of any kind in excess of those set forth in the said schedule. Octroi and other internal charges affecting such articles, and not equally imposed upon like articles the growth, produce or manufacture of Colombia, shall not be increased above their present rates.

ARTICLE II

Articles the growth, produce or manufacture of the Republic of Colombia, described in Schedule 2 annexed hereto and made a part of this agreement, shall, when imported into the United States of America, be exempt from all customs duties and import charges, except such special duties as are required by law to be assessed on importations which are not properly marked to indicate their origin, or which have been sold at less than the foreign market value (or, in the absence of such value, than the cost of production).

ARTICLE III

It is agreed that the United States of America and the Republic of Colombia will grant each other unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and subsidiary duties of every kind and in the method of levying duties, and, further, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the customs.

Accordingly, natural or manufactured products having their origin in either of the countries shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules and formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territories of either country and consigned to the territories of the other shall in no case be subject, in regard to the above-mentioned matters, to any duties, taxes or charges other or higher, or to any rules and formalities other or more burdensome, than those to which the like products when consigned to the territories of any other country are or may hereafter be subject.

All the advantages, favors, privileges and immunities which have been or may hereafter be granted by either country in regard to the above-mentioned matters, to natural or manufactured products originating in any other country or consigned to the territories of any other country shall be accorded immediately and without compensation to the like products originating from the other or to products consigned to the territories thereof.

Nevertheless, the advantages now accorded or which may hereafter be accorded to other adjacent countries in order to facilitate frontier traffic, and advantages resulting from a customs union already concluded or hereafter to be concluded by either country shall be excepted from the operation of this article; and this article shall not apply in respect of police or sanitary regulations or to the commerce of the United States of America with the Republic of Cuba, the Panama Canal Zone, the Philippine Islands, or any territory or possession of the United States, or in respect of the commerce of the territories and possessions of the United States with one another.

ARTICLE IV

This agreement shall become effective on the day on which the President of the Republic of Colombia shall inform the President of the United States of America that the reductions of duties provided for, and any changes in the laws and regulations of the Republic of Colombia that may be necessary to give effect to the provisions of the agreement, are in force in the Republic of Colombia. It shall remain in effect until either party shall, on thirty days' written notice to the other party, have terminated the same.

Done at Washington in duplicate in the English and Spanish languages, both of which shall be equally authentic, this day of, 1933.

In witness whereof, the duly authorized representatives of the President of the United States of America and the President of the Republic of Colombia, have affixed their signatures.

For the President of the United States of America :

For the President of the Republic of Colombia :

611.2131/55 : Telegram

The Chargé in Colombia (Dawson) to the Secretary of State

BOGORÁ, August 25, 1933—noon.

[Received 2:50 p. m.]

76. Legation's 74, August 19, 8 p. m. Miguel López Pumarejo, New York representative of National Federation of Coffee Growers, is be-

ing appointed additional adviser. Other experts will arrive New York September 5th S.S. *Santa Maria*.

DAWSON

611.2131/88

Memorandum by the Colombian Minister (Lozano)

[Translation]

I.

In my opinion President Roosevelt's policy of strengthening relations with Latin America is one of great statesman-like vision and will contribute more than all that has been done in the past to strengthen between these peoples a Pan-Americanism both idealistic and practical. I believe, therefore, that it is the duty and is to the advantage of all of us to cooperate with good will toward the prompt realization of the President's idea and in order to facilitate this I consider it indispensable that there should be no attempt at this time on the part of the United States to accomplish, in the commercial treaties, something of immediate and strict advantage to the men of business of this country, but to lay extensive plans in the way of future business. I consider that the key to success is to be found in this, and only in this, precisely because of the great disproportion existing between the power of the United States and that of each one of the countries of Latin America. I trust, because I have been observing the work of President Roosevelt very carefully, the treaty with Colombia—which is due, on account of being the first one in the series and for other circumstances, to have great psychological influence on the continent—will be discussed and adjusted according to the standards enunciated above, and possibly within a brief time, which will intensify, from this point of view, the favorable impression in the other countries.

II.

Colombia keenly desires to cooperate in the work of the United States and to this end will lend herself to everything which, while advantageous to the United States, will not prejudice the incipient economic system of Colombia, for the sake of which it is indispensable to defend some native industries, which are now in the very first stage of development. Colombia hopes that the United States will have a clear idea of these circumstances, and will facilitate the means of arriving at an early solution.

III.

The figures which have been submitted to Colombia by the United States are numerically exact, but in order that these figures may express what may be called the "true reality", it is necessary to make the said figures talk, and, therefore, to bear in mind that the greater part of the profit from Colombian coffee in its resale, in the transportation thereof, in the roasting industry, etc., is reaped by United States citizens and companies; the same is true of bananas; that petroleum is in fact American-owned, etc. And it is necessary to consider also that the United States already has some factories in Colombia and will naturally have more as soon as it is possible for it, by lawful business methods, to take better advantage of economic factors in Colombia.

[WASHINGTON,] August 28, 1933.

611.2131/78

The Chargé in Colombia (Dawson) to the Secretary of State

No. 5816

BOGOTÁ, August 28, 1933.

[Received September 5.]

SIR: Referring to the Legation's despatch No. 5810 of August 26, 1933,¹⁰ reporting the substance of two recent conversations with President Olaya regarding the negotiations between the United States and Colombia for a reciprocal trade agreement, I have the honor to report that Dr. Olaya brought the subject up again on August 27, 1933.

The President said that he had received on August 25, 1933, from the Colombian Minister to the United States a copy of the memorandum prepared by the Department, mentioned in the last paragraph of despatch No. 5810, together with the draft of the proposed trade agreement and the two schedules of articles to be covered by the agreement, attached thereto. Dr. Olaya said that both the Minister to the United States and the Minister for Foreign Affairs, who had studied the documents carefully, considered that the United States was trying to drive a hard bargain and that he (Olaya) was inclined to agree with them, although he had not yet had a chance to do more than read the schedule of American goods for which reduction of Colombian import duties was asked.

President Olaya remarked that he thought the following comments, although based only on this cursory examination, were fair:

(1) It would be very difficult for Colombia to agree to material reductions in duties on foodstuffs; he stated his belief that Colombia

¹⁰ Not printed.

as an agricultural country should protect its production of such articles and that the impetus given thereto under the present tariff was sound economically (he mentioned wheat in particular).

(2) While it was easy to understand the interest of the United States in securing a reduction of duties on cotton and rayon cloth and goods, the reason for the extension of this concern to natural silk was not apparent; under the most-favored-nation clause, France, Colombia's principal present source of supply for silk, and Japan, the most important potential source, would be more likely to be benefited than the United States.

(3) No reductions were asked for in duties on such typical American products as automobiles, with which foreign articles could not compete in Colombia; these would be easier to grant than a reduction in the duty on wheat and of more value to American interests than reductions on natural silk.

I made no comment to President Olaya concerning his remarks and explained that I had received no copies of the memorandum, draft treaty, or schedules from the Department. President Olaya volunteered to send me copies and stated that he would probably wish to talk to me further about Schedule I of the draft treaty after he had had a chance to consider it carefully and consult officials of the Ministry of Finance regarding it.

I shall, of course, in the absence of instructions from the Department to the contrary, endeavor to avoid discussing the matter with President Olaya, in view of the fact that the exploratory conversations are taking place in Washington, and shall limit myself to listening to and reporting any comments which he may make.

Respectfully yours,

ALLAN DAWSON

August 29, 1933.

P. S. I have today received from the Ministry for Foreign Affairs copies of the memorandum, draft treaty, and attached schedules.

611.2131/99

Memorandum Left at the Department of State by the Colombian Minister (Lozano), September 2, 1933

[Translation ²¹]

In the memorandum handed to the Minister of Colombia by the Department of State, there is expressed a desire to call attention to certain commercial data which throw light upon the schedules which are included with the treaty and which constitute a part thereof.

In our opinion, the said schedules treat certain factors in an isolated way. It is necessary to take into consideration essential economic

²¹ File translation revised.

factors of the countries which are going to make an agreement; the figures shown by the volume of imports in some previous years, particularly considered between Colombia and the United States. Nor is it possible to lose sight of the significance for Colombia and the United States of certain figures representing the products exported from Colombia to the United States.

The following ideas constitute a synthesis of the reason for the counter-proposal which is suggested.

1. Every commercial treaty, inasmuch as it is a bilateral pact between two nations, not only should aim at a greater *rapprochement* between them, but also should seek the reciprocal development of the two countries, so that there ought to be reciprocal concessions not involving prejudicial results for either of the contracting parties.

2. The Republic of Colombia has intensified with admirable success the production of foodstuffs of the first necessity, and, it being considered, furthermore, that she is distinctly an agricultural country, it is not possible to accept reductions in the customs rates which can affect in any way her agricultural growth.

3. It should not be lost to view that, as the Republic of Colombia is a country whose economic prosperity depends especially on the success of her agriculture and of essential industries which have been undergoing development with excellent results, any customs measure that would permit the economic weakening of the country by the ruin of her agriculture or of her industries will, incidentally, injure American commerce, because it will end by reducing appreciably her consumption capacity, and her purchases abroad will thereby be diminished in the same proportions. Likewise it should be borne in mind that both the nation and various official entities have in existence loan obligations to the United States, and that it is necessary to secure the economic improvement of the Republic in order that she may continue to be capable of carrying out her obligations.

4. It is necessary to consider that in the volume of articles of export from Colombia to the United States there appear articles whose product does not really enter the country, as occurs, for example, in the case of petroleum and bananas, it not being possible, consequently, to accept in a general form the abstract result shown by the comparative figures of the commercial interchange between the United States and Colombia.

5. It is necessary to consider that from 1927 to 1930—a period of great commercial movement and apparent prosperity, and a period in which the volume of imports into Colombia reached very important figures—the percentage relating to the importation from the United States presents the following indices:

1927	—	44.89%
1928	—	44.59%
1929	—	45.94%
1930	—	45.41%
1931	—	44.33%
1932	—	42.10%

6. The percentage index of importations from the United States in 1932 clearly shows that it is not possible to take isolated figures corresponding to certain articles in the volume of imports. The total volume of imports by Colombia must be considered, for while it is true that owing to the restrictions introduced in Colombia's tariff, the importation of certain articles has diminished appreciably, it is also true that the ensemble of the articles imported by Colombia from the United States has kept the same index, which shows that while exports from the United States to Colombia have been reduced as regards certain articles or goods, on the other hand, the volume of importation of other articles derived from the United States has increased proportionately.

7. It is interesting to compare the index of the proportion of imports into Colombia from the United States, Germany, and Great Britain, in order to draw the conclusion that the greatest volume of our import commerce has always been with the United States.

<i>Year</i>	<i>United States</i>	<i>Great Britain</i>	<i>Germany</i>
1925	50.05%	22.54%	9.66%
1926	48.67%	16.88%	13.02%
1927	44.89%	15.01%	13.93%
1928	44.59%	12.64%	15.60%
1929	45.94%	14.40%	14.42%
1930	45.41%	12.42%	12.88%

8. It must also be taken into account that the greater part of the articles exported by Colombia to the United States are products of first necessity which are not produced in the United States and which because of the existing tariff provisions are on the same footing of equality with the same products proceeding from other countries which may or may not have the same volume and the same proportion of imports as articles proceeding from the United States.

9. The purchasing and consumption capacity of a country cannot be maintained in commercial interchange with another country at an absolute balance since there enter into play economic factors which are of fundamental importance, such as the total number of inhabitants, the wealth of the country, and the supply and demand of certain articles.

10. It must be taken into consideration that in the Republic of Colombia the customs revenues constitute the principal income of the

national budget and, therefore, any change which affects the tariff would also cause a lack of balance in the budget because of the diminishing of the flow of income into the treasury from customs duties. It is well understood that the fiscal organization of a country depends on the balancing of its budget, and the Republic of Colombia desires not to change her line of conduct of tending consistently to obtain effective and balanced figures in the operation of her budgets.

11. The Republic of Colombia desires to render firmer and closer her commercial relations with the United States of America, and on this occasion, in order to demonstrate this in an effective and palpable form, she offers to effect a reduction in her tariff rates, particularly on articles and manufactured products typically pertaining to the commerce of the United States, it being considered that the tariff reduction in the form offered and approximately in the proportion indicated in the memorandum presented by the Government of the United States, will secure the benefits and advantages to which the Government of the United States aspires.

12. In Schedule No. 1,¹³ reference is made to the statistics corresponding to the imports in the year 1930 for the reason that in the said year there appears a median figure between the high imports of Colombia in the years 1927, 1928 and 1929 and the reduced imports in the years 1931 and 1932. Possibly the reductions offered by Colombia will bring into effect, as a consequence, the new tariff proposal assuring a volume of importation not inferior to that of 1930. At the same time it is necessary to take into consideration the fact that in the year 1930 the new provisions of the Colombian customs tariff which were promulgated in the year 1931 had not yet gone into effect, and that they had as an immediate and visible consequence the very appreciable reduction of imports into Colombia.

13. As the Republic of Colombia desires to increase her exports to the United States of certain articles which do not appear to injure the economy of the United States, it is requested that in Schedule No. 2¹³ submitted by the American Government there be included certain articles or goods which are produced or which may be produced in Colombia to an amount sufficient for exportation, and which will thus create a new economic factor favorable to the two countries.

[Enclosure—Translation ¹⁴]

Colombian Counterdraft of the Reciprocal Trade Agreement

The President of the Republic of Colombia and the President of the Republic of the United States of America, desiring to promote

¹³ Not printed.

¹⁴ File translation revised.

trade between the two nations, have arrived at the following agreement:

ARTICLE I

The Republic of Colombia and the United States of America reciprocally agree to grant each other the concessions that are stipulated in this agreement in compensation for the mutual advantages which the two states grant each other and which are set forth in this agreement.

ARTICLE II

The articles and products enumerated in Schedule 1 shall pay as customs duties, for their importation into the Republic of Colombia, the rate set forth and fixed in the said Schedule 1, which forms a part of this agreement.

Customs duties and import charges are understood, as between the contracting parties, to include only the charges indicated in the tariff schedule and the respective modifications thereof.

The present rate of municipal duties and other taxes which affect the articles specified and described in Schedule 1 and which are not also imposed on products of the soil or industry of Colombia cannot be increased. It is understood that, in the case of municipalities where taxes have not been established that affect the said articles and which may be established in accordance with the law, such municipalities shall have the right to establish such taxes similar or equal to those already established in other municipalities, provided that the rate that may be fixed does not exceed the rates at present established, which shall be the highest rates that may be established. Likewise there shall be no increase in the United States in the rates of municipal taxes or in other taxes that may affect the articles enumerated in Schedule 2, nor shall the taxes that may be established in the future exceed the rate of the present taxes, nor shall municipal or other taxes be established on articles specified in Schedule 2, different from those already established. On the articles described in Schedule 1, the Republic of Colombia may establish customs duties different from those specified in the said table on imports the trade-marks of which do not indicate precisely the place of origin or which may be sold at less than the cost of production.

ARTICLE III

The articles and products of the industry or the soil of the Republic of Colombia, described in the annexed Schedule 2 and which forms an integral part of this agreement, when imported into the United States of America shall be exempt from all customs duties or import taxes of any kind in excess of those that may be fixed in the said Schedule,

with the exception of certain special duties required by law which may be imposed on imports the trade-marks of which do not precisely indicate the place of origin or which have been sold at less than the cost of production.

ARTICLE IV

It is agreed between the Republic of Colombia and the United States of America that every favor, privilege or exemption relating to customs duties, to commerce and navigation in general, and to all matters concerning the regulations, proceedings, charges or taxes in connection with the clearance of merchandise in customs houses which may have been granted or may be granted in the future by one of the contracting parties to another nation, shall be extended to the other contracting party, which shall enjoy the same benefits freely and immediately if the concession was made freely and without restrictions, or shall grant the same compensation or other equivalent if the concession was conditional. However, the advantages that are now conceded or may be subsequently granted to other contiguous countries for the purpose of facilitating traffic on the frontiers and the advantages that may result from customs unions concluded or which may be subsequently concluded by either of the contracting parties, shall be exempt from the effects of this article. This article shall not apply with respect to police or sanitary regulations or with regard to the commerce of the United States of America with the Republic of Cuba, the Panama Canal Zone, the Philippine Islands or any territory or possession of the United States or with respect to the commerce of the territories or possessions of the United States with each other.

ARTICLE V

As compensation for the reciprocal concessions made by the two contracting parties to each other, it is agreed that provisions shall not be adopted either in the Republic of Colombia or in the United States of America, which prohibit, limit, or in any way restrict or may restrict the volume of imports into one of the contracting countries with respect to articles, products, or manufactures originating in the soil or the industry of the other contracting country.

Regulations or laws in force or which are passed or may be passed in each contracting country relative to imports of articles or merchandise, having to do with cases of hygiene or sanitary conditions or of public order or safety shall be exempt from this provision.

ARTICLE VI

This agreement shall modify any other previous agreement concluded between the contracting parties, only with respect to such provisions as are not compatible with the stipulations that are made to-day by this agreement.

ARTICLE VII

The present agreement shall come into force on the day on which the Presidents of the Republic of Colombia and of the United States shall have notified each other that the exemptions from and reductions in the customs duties stipulated and any changes in the laws and regulations of the two contracting nations which may be necessary to give effect to this agreement, are in force respectively in the appropriate part in each of the two contracting republics. This agreement shall remain in effect for one year after one of the contracting parties shall indicate to the other its desire to terminate it, by means of a notice which shall be given in writing to the respective chancellery.

Done at Washington, in duplicate in the Spanish and English languages, both of which shall be considered authoritative, to-day the of

In witness whereof, the duly authorized representatives of His Excellency the President of the Republic of Colombia and of His Excellency the President of the Republic of the United States of America have affixed their signatures.

For the President of the United States of America

For the President of the Republic of Colombia

611.2131/84

The Chargé in Colombia (Dawson) to the Secretary of State

No. 5832

BOGOTÁ, September 5, 1933.
[Received September 9.]

SIR: Referring to previous correspondence concerning the proposed reciprocal trade agreement between the United States and Colombia, and particularly to the Legation's despatch No. 5816 of August 28, 1933, reporting certain comments of President Olaya concerning the draft agreement and annexes handed informally to the Minister of Colombia at Washington on August 22, 1933, I have the honor to report that President Olaya again brought the subject up in conversation on September 3, 1933.

Dr. Olaya said that he had given further thought to the question of the possibility of reducing Colombian import duties on the list of articles contained in Schedule I annexed to the draft agreement. He expressed more strongly than before the opinion that reduction of duties on foodstuffs would not, in general, be feasible (on this occasion he specifically mentioned wheat, rice, flour, crackers and biscuits), but remarked that most of the reductions asked for on manufactured articles seemed reasonable.

Respectfully yours,

ALLAN DAWSON

611.2131/111a

American Redraft of the Reciprocal Trade Agreement Handed to the Colombian Minister (Lozano) by the Assistant Secretary of State (Caffery), October 26, 1933

The President of the United States of America and the President of the Republic of Colombia, desiring to promote trade between the two countries, have arrived at the following agreement :

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedule 1 annexed hereto¹⁵ and made a part of this agreement, shall, when imported into the Republic of Colombia, be exempt from customs duties and import charges of any kind in excess of those set forth in the said schedule.

Articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedule 2 annexed hereto¹⁵ and made a part of this agreement, shall, when imported into the Republic of Colombia, be subject to treatment no less favorable in respect to duties, rebates, surtaxes and other charges on imports than those enjoyed on August 15, 1933.

ARTICLE II

Articles the growth, produce or manufacture of the Republic of Colombia, enumerated or described in Schedule 3 annexed hereto¹⁵ and made a part of this agreement, shall, when imported into the United States of America, be exempt from all customs duties and import charges. The provisions of this article shall not apply to coffee imported into Puerto Rico.

ARTICLE III

The provisions of this agreement shall not apply to such special duties as are required by laws of either Contracting Party to be assessed on importations which are not properly marked to indicate their origin, or to such special duties as may be required by such laws to be assessed on importations which have been sold at less than the foreign market value (or, in the absence of such value, than the cost of production in the country of origin).

ARTICLE IV

All articles, the growth, produce or manufacture of either Contracting Party, after importation into the territory of the other Party,

¹⁵ Not printed.

shall be exempt from any internal taxes or charges other or higher than those payable on like articles of national origin.

Those articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedules 1 and 2 annexed hereto which are not produced in substantial quantities within the Republic of Colombia, shall, after importation into the territory of the Republic of Colombia, be exempt from any internal taxes or charges other or higher than those in force on the date of signature of this agreement. Likewise, those articles the growth, produce or manufacture of the Republic of Colombia, enumerated or described in Schedule 3 annexed hereto, which are not produced in substantial quantities in the United States of America, shall, after importation into the United States of America, be exempt from any internal taxes or charges other or higher than those in force on the date of signature of this agreement.

ARTICLE V

No prohibition or restriction on importations shall be imposed by either Contracting Party on articles the growth, produce or manufacture of the other Party with respect to which obligations have been assumed under Articles I and II, respectively, of this agreement: *Provided, That* the foregoing provision shall not apply to prohibitions or restrictions relating to public security; imposed on moral or humanitarian grounds; designed to protect human, animal, or plant life; or applying to prison-made goods and goods the product of forced or slave labor however employed.

ARTICLE VI

No administrative ruling by either Contracting Party effecting advances in duties or charges applicable to imports, or imposing any new requirement with respect to imports, from the territory of the other Party, shall become operative until at least thirty days after public notice thereof in the usual official manner. The provisions of this article do not apply to administrative orders imposing anti-dumping duties, relating to sanitation or public safety, or giving effect to judicial decisions.

ARTICLE VII

It is agreed that the United States of America and the Republic of Colombia will grant each other unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and subsidiary charges of every kind and in the method of levying duties, and, further, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the customs.

Accordingly, natural or manufactured products having their origin in either of the countries shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules and formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territory of either Party and consigned to the territory of the other shall in no case be subject, in regard to the above-mentioned matters, to any duties, taxes or charges other or higher, or to any rules and formalities other or more burdensome, than those to which the like products when consigned to the territory of any other country are or may hereafter be subject.

Any advantage, favor, privilege or immunity which has been or may hereafter be granted by either country in regard to the above-mentioned matters, to a natural or manufactured product originating in any other country or consigned to the territory of any other country shall be accorded immediately and without compensation to the like product originating in or consigned to the territory of the other Party.

Neither Party shall establish any prohibition or maintain any restriction on imports from the territory of the other which is not applied to the importation of any like article originating in any other country. Any abolition of an import prohibition or restriction which may be granted even temporarily by either of the Parties in favor of an article of a third country shall be applied immediately and unconditionally to the like article originating in the territory of the other Party.

In the event of rations or quotas being established by either Party for the importation of any article otherwise restricted or prohibited, it is agreed that in the allocation of the quantity of restricted goods which may be authorized for importation, the other Party will be granted an equitable share, corresponding to the proportion of the trade which it would normally enjoy.

Foreign exchange transactions shall not be regulated or controlled in either country in such manner as to discriminate against the nationals or commerce of the other as compared with the nationals or commerce of any third country.

Nevertheless, the advantages now accorded or which may hereafter be accorded to other adjacent countries in order to facilitate frontier traffic, and advantages resulting from a customs union already concluded or hereafter to be concluded by either country shall be excepted from the operation of this article; and this article shall not apply to police or sanitary regulations or to the commerce of the United States

of America with the Republic of Cuba, or to commerce between the United States of America and the Panama Canal Zone, the Philippine Islands, or any territory or possession of the United States, or to the commerce of the territories and possessions of the United States of America with one another.

Subject to the reservations set forth in the preceding paragraph the provisions of this article shall apply to articles the growth, produce or manufacture of any area under the sovereignty or authority of either Party imported from or exported to any area under the sovereignty or authority of the other Party. It is understood, however, that the provisions of this paragraph do not apply to the Panama Canal Zone.

ARTICLE VIII

Except as otherwise provided in this agreement the provisions thereof shall apply to the customs territories of the two countries.

ARTICLE IX

The provisions of this agreement shall supersede any subsisting treaty provisions inconsistent therewith.

ARTICLE X

(Proposal by Colombia for one year's notice of termination is being studied.)

611.2131/109

*Memorandum by the Assistant Chief of the Treaty Division
(McClure)*

[WASHINGTON,] November 2, 1933.

COLOMBIA: RECIPROCITY NEGOTIATIONS—FIRST MEETING OF THE EXPERTS

A proposal for a reciprocity agreement having been submitted by the United States to Colombia, and a counterproposal having been received and replied to, the reply of the United States, consisting of a draft agreement with annexed schedules, became the basis for further discussion. The first meeting of experts for this purpose took place in the conference room (No. 277), Department of State, Tuesday, October 31, 1933, 10:00 a. m.

The Colombian experts requested that, prior to the discussion of details article by article, there should be general consideration of certain points. These were—

- (1) Their inability to reduce duties on agricultural products.
- (2) Their desire to continue certain minor charges collected in their customs houses in addition to ordinary customs duties.
- (3) Their insistence that there should be no internal revenue duties in the United States upon roasted coffee.
- (4) The inability of their cities to dispense with octroi, falling solely on imported goods.
- (5) Their preference for the conditional most-favored-nation clause.

This request was at once agreed to.

(1) THE AGRICULTURAL SCHEDULES

In their counterproposal, submitted following the original American proposal, the Colombians eliminated the duty reductions upon agricultural products. The American reply restored these with certain changes. The Colombians stated that the domestic agricultural situation, the desire for self-sufficiency in foodstuffs during these troubled times, and the general understanding that the agreement was to deal only with non-competitive products, made it necessary for them to remove all agricultural products from the list of goods upon which reductions in the Colombian tariff would be made. They stated with much positiveness that this was an absolute requirement.

The United States experts answered that, in entering upon a program of reciprocity agreements, of which the one under consideration was to be the first, their government considered that one of its two or three fundamental policies consisted in obtaining, by virtue of each agreement, some provision that would encourage the exportation of agricultural products; that this was necessary for reasons both economic and political; that such agreements would hardly obtain the approval of Congress should any one fail to include agricultural concessions; that agriculture was the greatest industry of the United States; that the principal single item in the treaty would be free trade in the leading Colombian agricultural product, and that an instrument designed so fundamentally to safeguard the markets of Colombian farmers must promise a market for farmers of this country.

It was agreed that each side would consider this proposition further with the idea of endeavoring to work out a basis acceptable to both.

(2) MINOR DUTIES COLLECTED IN COLOMBIAN CUSTOMS HOUSES

The second point raised by the Colombians was concerned with Article I of the draft agreement. They stated that there were certain incidental duties leviable in the Colombian customs houses which would fall within the definition of "customs duties", as the expression is used in Article I, but with which it had not been intended to interfere as a result of the agreement. These duties are very small and

apparently this Government can be content if they are kept stationary, though in addition to the duties named in the schedules. Accordingly, the Colombians were informed that an endeavor would be made to draft the agreement so as to meet their wishes in the matter.

(3) UNITED STATES INTERNAL REVENUE DUTIES ON ROASTED COFFEE

The third point raised by the Colombians grew out of the provision of Article IV which accords national treatment with reference to internal duties. The Colombians were concerned, in the first place, with the question whether the green coffee imported into the United States, when roasted and placed on sale, might not be subject to duties, levied by the states or otherwise, which would seriously reduce the benefit of the original free importation.

They were informed that this Government would give sympathetic consideration to this point and would examine into the legal aspects of the case with a view to finding out what could be agreed to.

(4) COLOMBIAN MUNICIPAL OCTROI

With respect to municipal duties on goods entering cities, the Colombians stated that it would be very difficult indeed to accord national treatment, as required by Article IV, because of the fact that these duties were important to various municipalities from the revenue standpoint and because for a long time there had been levies upon Colombian imported products.

It was insisted on the part of the United States that such duties were out of line with modern treaty provisions and that the Colombian system ought to be changed. Should it not be changed the benefits of reductions in the customs houses might be entirely obliterated by discriminating local taxes.

The eventual attitude of Colombia in regard to this point may be influenced by the reply of the United States with reference to internal duties on roasted coffee.

(5) THE MOST-FAVORED-NATION CLAUSE

The final point raised by the Colombians dealt with the most-favored-nation clause. They stated, as was to be expected in view of the provisions of their counterproposal, that the most-favored-nation clause should be conditional. They intimated that they would be very glad to set up a preferential regime with the United States and stated that they did not wish to be bound to European countries by most-favored-nation treaties; those existing might in due time be terminated. In this connection, it may be noted that one of the agricultural duty reductions asked for by the United States, namely, rice, comes into Colombia in larger quantities from Germany than from this country.

While expressing due appreciation for the Colombian attitude in the foregoing matter, it was stated on behalf of the United States that this Government was bound by many treaties with different countries in all parts of the world and that it held as a fundamental conception that equality is the most appropriate basis for commercial treaties. Accordingly, it would necessarily insist upon the maintenance of the unconditional most-favored-nation clause in the agreement under consideration and in its treaties generally. It was apparent that the Colombians would not hold out in their opposition, but would agree to the unconditional most-favored-nation clause.

The following were present as representatives of Colombia:

Sr. Miguel López Pumarejo, Representative in New York of the National Association of Coffee Growers (of Colombia);

Dr. Francisco Restrepo Plata, President of the Supreme Customs Tribunal of Colombia;

Dr. Arturo Hernández, Member of the Supreme Customs Tribunal of Colombia;

General Alfredo de León, Secretary.

Mr. McClure, Mr. Matthews, Mr. Hawkins and Mr. Leap, of the Department of State, and Mr. Donnelly of the Department of Commerce were present as experts for the United States.

The next meeting will occur in Room 277 on Friday morning, November 3, at 10:00 o'clock.

W[ALLACE] MC[CLURE]

611.2131/126a

*Draft of Article IV Submitted by the Colombian Representatives,
November 17, 1933*

[Translation ¹⁷]

ARTICLE IV

All articles, the produce or manufacture of either of the Contracting Parties, after importation into the territory of the other, shall be exempt from any national or federal tax other or higher than the tax payable on like articles of national origin or production.

Those articles, the produce or manufacture of the United States of America, enumerated and described in Schedule No. 3 annexed hereto and made a part of this agreement, after importation into Colombia shall be exempt from any internal tax or governmental charge other or higher than those in force on the date on which this agreement is signed. Likewise, those articles, the produce or manufacture of the

¹⁷ Translation supplied by the editors.

Republic of Colombia enumerated and described in Schedule No. 2, after importation into the United States of America, shall be free from any consumption tax, internal tax or charge other or higher than those in force on the date on which this treaty is signed. However, it is understood that if any municipality, department or state of either of the Contracting Parties does not have in force a tax or charge equal to that in another state, department or municipality, it may establish or increase the tax or charge provided that it does not exceed the highest rate in force on the date on which this treaty is signed.

In so far as rates and charges for transportation are imposed or controlled by either of the Contracting Parties, the articles grown or manufactured in the territory of either of the Parties shall pay within the territory of the other the same rates and charges for transportation which are paid on like articles of domestic production transported under like conditions. The object of this arrangement is to avoid discrimination in the rates and charges for transportation in force only on goods of domestic origin.

611.2131/114b : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, November 20, 1933—7 p. m.

76. In Article 4 of the proposed trade agreement it is provided that no higher departmental or municipal taxes or charges shall be imposed by Colombia on imported articles from the United States listed in an attached schedule than the highest taxes or charges now imposed by any department or municipality. It is therefore important, to enable the Department to answer inquiries on this particular, to know (1) the specific law by which municipal or departmental taxes are levied, and (2) the highest taxes whether by weight or ad valorem now imposed by municipalities or departments on those general classes of goods set forth in schedules 1 and 2 forwarded you with Department's instruction No. 616 of November 4, 1933.¹⁸

From information available here it would appear that highest existing rate is 20 pesos per metric ton established by Medellín.

Can you confirm this or advise Department by telegraph sufficiently in detail to permit no delay in negotiations?

Your reply is eagerly awaited. You may consult with appropriate Colombian authorities whose aid has also been sought by their representatives here and urge the importance of a prompt reply.

PHILLIPS

¹⁸ Not printed; it transmitted the counterdraft of the agreement, September 2 (*ante*, p. 231) and the redraft of October 26 (*ante*, p. 235).

611.2131/116a : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, November 22, 1933—2 p. m.

77. In connection with the trade agreement negotiations, the Colombian Minister has now raised the question of obtaining a larger "quota" of petroleum imports into the United States. You may point out to the appropriate Colombian authorities and American petroleum interests who are presumably also behind the move that by an order of September 28 of the Secretary of the Interior until further notice imports of petroleum into the United States are limited to an amount not exceeding the average daily imports during the last 6 months of 1932, but that it is up to the importing company to determine from what foreign sources it wishes to purchase its petroleum for import into the United States.

The order is complementary to the domestic petroleum code and the efforts drastically to curtail production in the United States to bring it into line with consumption.

PHILLIPS

611.2131/115 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 23, 1933—7 p. m.

[Received November 24—4 a. m.]

95. Your November 20, 7 p. m. Paragraph 3, article 97, Law 4 of 1913¹⁹ forbids departmental assemblies to tax articles which are taxed by national government unless given express authorization to do so by law. Council of State held in 1916 that prohibition extended to taxation of articles on which import duties are collected. So far as it has been possible to ascertain there are no laws in effect granting necessary authorization and consequently no departmental taxes on imported merchandise.

Paragraph No. 9, article 171, Law 4 of 1913²⁰ prohibits municipal councils from taxing things already taxed by the nation or department unless conceded the right to do so in a particular case. Article 4, Law 8 of 1888 authorized departmental assemblies to permit municipalities to establish consumption tax on foreign merchandise up to limit of 12 pesos per metric ton. Article 23, Law 99 of 1922²¹ directly

¹⁹ Law 4 of August 20, 1913, República de Colombia, *Leyes Expedidas por el Congreso Nacional*, 1913, p. 8.

²⁰ *Ibid.*, p. 54.

²¹ Law 99 of December 7, 1922, República de Colombia, *Leyes Expedidas*, 1922, p. 291.

authorized municipal councils to place consumption tax not exceeding 20 pesos per metric ton on foreign merchandise to meet municipal public health expenses.

Medellín divides imported merchandise into 4 classes with tax rates: free, 5 pesos per ton, 10 pesos per ton and 20 pesos per ton (for complete schedule see report dated October 26th, 1931 from Vice Consulate at Medellín entitled *New Municipal Import Tax*²³). Bogotá levies general tax of 8 pesos per ton (see Legation's despatch No. 3092 of September 12th, 1931²³). It is understood that Calí has general tax of 10 pesos per ton but it has not been possible as yet to consider this or secure copy of municipal ordinance. Data as to other municipalities not available but it is believed none have rates as high as those mentioned. Medellín rates are apparently highest for some articles and Calí or Bogotá rates for others.

All of the above is purely advisory being based on Legation's research and consultation with best possible authorities. Data secured from Colombian Government agencies fragmentary and inaccurate.

I presume that Department is aware that rates of national railways from coast to intermediate points are in some cases considerably higher than rates for similar articles from interior to intermediate points. Extension of this policy could work to offset in large part duty concessions in proposed agreement. The Department may desire to consider this matter before approving final draft of agreement.

DAWSON

611.2131/128

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5971

Bogotá, November 24, 1933.

[Received November 29.]

SIR: I have the honor to report that, in accordance with the instructions contained in the Department's telegram No. 77 of November 22, 2 p. m., I have pointed out to Dr. Pedro M. Carreño, Acting Colombian Minister for Foreign Affairs, and Mr. H. A. Metzger, executive representative of the Tropical Oil Company and the Andian National Corporation, the nature of the order of the Secretary of the Interior dated September 28, 1933, restricting imports of petroleum into the United States.

Dr. Carreño told me that the Colombian Minister at Washington had raised the question of securing a larger "quota" for imports of petroleum into the United States from Colombia on instructions from President Olaya. He gave me to understand that these instructions

²³ Not printed.

were the result of a suggestion made to President Olaya by Captain J. W. Flanagan, President of the Andian National Corporation, during his recent visit to Bogotá (November 18-20).

Dr. Carreño said that he would inform the President and the Minister of Finance and Public Credit (who has had supervision in Bogotá over the commercial negotiations with the United States) of the substance of my remarks to him. Mr. Metzger neither affirmed nor denied his companies' interest in the efforts of the Colombian Government.

The Department will, of course, recall that the Tropical Oil Company and the Andian National Corporation suggested in July 1932 to the Colombian Government that it lodge a protest at the State Department in connection with the then recently enacted American tariff on petroleum (the Legation's despatch No. 4120 of July 23, 1932²⁴).

Respectfully yours,

ALLAN DAWSON

611.2131/136

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5980

Bogotá, November 28, 1933.

[Received December 6.]

SIR: I have the honor to refer to the Department's telegram No. 77 of November 22, 2 p. m., in regard to the raising by the Colombian Minister at Washington of the question of obtaining a larger "quota" for imports of petroleum into the United States from Colombia, and to the Legation's despatch No. 5971 of November 24, 1933, in reply thereto. Mr. H. A. Metzger, executive representative of the Tropical Oil Company and the Andian National Corporation, admitted on November 26, 1933, that the principal purpose of the recent visit to Bogotá of Captain J. W. Flanagan, President of the Andian National Corporation, had been to endeavor to have the Colombian Government take certain action in connection with the proposed trade agreement between the United States and Colombia.

Mr. Metzger said that Captain Flanagan had suggested to President Olaya that the Colombian Government ask for a reduction in or the elimination of American tariff rates on petroleum imported from Colombia; that he (Flanagan) thought that such a request would be reasonable in view of the reduction in Colombian rates on a number of American articles provided for in the agreement; and that if the American rates were lowered it would be good business for the oil companies and for the Colombian Government, which would receive larger royalties.

²⁴ Not printed.

Mr. Metzger stated that Captain Flanagan had not had in mind any action by the Colombian Government in connection with the order of the Department of the Interior restricting the volume of petroleum imports, realizing fully the nature of the order. He remarked that the Colombian authorities must either have misunderstood Captain Flanagan's suggestion or substituted an idea of their own.

Respectfully yours,

ALLAN DAWSON

611.2131/1371

The Acting Secretary of State to President Roosevelt

WASHINGTON, December 4, 1933.

MY DEAR MR. PRESIDENT: I submit herewith a draft of a reciprocal trade agreement between the United States and Colombia²⁵ which has been tentatively agreed upon between representatives of the two countries. In accordance with Article XI, the agreement would become effective only after Congress has enacted the necessary legislation to give it effect. The minimum term of the agreement would be two years.

The United States on its part agrees in the attached draft not to impose import duties, excise taxes or prohibitions on a list of nine products set forth in Schedule Two (Articles II, IV and V). All of the nine products affected are at present free of duty. By far the most important from Colombia's standpoint is coffee. The draft agreement provides (Article IV) that any existing state excise taxes affecting interstate or foreign commerce subject to statutory control by the Federal Government, shall not be increased on the nine products listed in Schedule Two. The provisions of the Agreement if enacted into law would effect little change in existing laws of the United States. However, attention is called to the fact that under Article III the anti-dumping act would be rendered inapplicable to coffee. The Colombian negotiators insisted upon this provision.

Colombia, on its part, grants tariff concessions on a list of about 150 items, approximately half of which are subject to reductions in duty, the remainder being assured of tariff treatment no less favorable than that now enjoyed (Article I). The products affected include numerous industrial and a number of agricultural products. The American negotiators sought much more extensive concessions on agricultural products than those provided for in the draft agreement. The Colombian negotiators at first refused to make any concessions whatever on agricultural products and foodstuffs but even-

²⁵ Not printed; it is the same, except for minor modifications, as the text signed December 15, 1933, *post*, p. 249.

tually, by way of compromise, agreed to grant reductions in duty on a number of such products, including hog lard, prepared cereals, potatoes, certain canned vegetables, fresh and preserved fruits, prepared milk and tanned hides. In addition to the provisions regarding tariff treatment of American products the draft agreement contains commitments by Colombia regarding internal taxes similar to those which would be made by the United States (Article IV).

The draft agreement also contains a reciprocal provision for national treatment in regard to transportation charges (Article IV).

The draft agreement does not provide that the concessions granted by each Party shall apply exclusively to the specified products imported from the other. Both countries have most-favored-nation treaties with other countries. Colombia, for example, would be free to generalize to all other countries the concessions granted to the United States. But since the products on which concessions have been obtained from Colombia are those of which the United States is the principal source of Colombia's imports, the United States would be the principal beneficiary of the concessions even though they are extended to products of other countries. The draft agreement provides that each country will grant the other unconditional most-favored-nation treatment (Article VII), thus assuring that concessions granted under the agreement will not be impaired by the granting of more extensive concessions exclusively to some other country.

The situation respecting Colombian indebtedness should be called to your attention in connection with the proposed trade agreement. Colombian departmental (state) and municipal bonds are in complete default; and except for a provision to pay four percent interest on scrip to be issued in lieu of cash payments, the Colombian Congress did not provide for service on its external funded debt in the 1934 budget.²⁶ As most of these bonds were floated in this country, American bondholders may feel that any trade agreement signed with Colombia should include some assurances of a renewal or continuation of debt service in view of the amount of exchange provided through coffee sales in the United States. It has been felt that such a question should not be considered in connection with this agreement and it is most improbable that Colombia would have negotiated any agreement including a debt service provision. Should it later appear advisable to endeavor to persuade Colombia to make some payment on her bonds held by American citizens, an effective argument might be found in the extensive control over foreign exchange granted the Secretary of the Treasury in section 8 of your Executive Order of

²⁶ For correspondence concerning suspension of debt service on external obligations, see pp. 254 ff.

August 28, 1933, "Relating to the Hoarding, Export, and Earmarking of Gold Coin, Bullion or Currency and to Transactions in Foreign Exchange".²⁷

I believe it would be advantageous to the United States to sign the agreement and would appreciate being informed whether you approve this step.²⁸

Faithfully yours,

WILLIAM PHILLIPS

611.2181/141

Joint Statement by the Acting Secretary of State and the Colombian Minister (Lozano), Issued to the Press on December 15, 1933

The Acting Secretary of State and the Minister of Colombia today signed a reciprocal trade agreement. The agreement will come into force after the necessary legislative action shall have been taken in the United States and Colombia. The minimum term of the agreement is two years from the date of its coming into force.

On the part of the United States the agreement provides that certain specified products of Colombia shall continue to be exempt from import duties, federal excise taxes and prohibitions on importation, and also that state excise taxes affecting interstate or foreign commerce, in so far as they are subject to statutory control by the Federal Government, shall not exceed the maximum tax at present levied by any State.

The agreement provides that Colombia on its part will reduce its customs duties on specified products from the United States and will refrain from increasing them on certain other specified products. As regards the products listed in the agreement Colombia makes commitments with respect to internal taxes and prohibitions similar to those made by the United States.

This agreement, which is of mutual benefit to the two countries, furnishes a practical example of the policy of "neighborliness", in the American continents, and it is hoped may lead to other bilateral agreements of a similar nature having as their object the restoration and improvement of trade relations.

²⁷ For text, see *New York Times*, August 30, 1933, p. 2.

²⁸ The President returned this letter on December 6 with the endorsements "OK FDR" and "Excellent—Go ahead. FDR".

Unperfected Treaty No. A-10

Reciprocal Trade Agreement Between the United States of America and the Republic of Colombia, Signed at Washington, December 15, 1933 ²⁹

The President of the United States of America and the President of the Republic of Colombia, desiring to promote trade between the two countries, have arrived at the following reciprocal agreement.

ARTICLE I

Articles the growth, produce or manufacture of the United States of America, enumerated or described in Schedule One annexed hereto ³⁰ and made a part of this agreement, shall, when imported into the Republic of Colombia, be exempt from customs duties in excess of those set forth in the said schedule. For purposes of this article customs duties are understood to include only charges indicated in the tariff schedule and the respective modifications thereof.

No other or higher duties, taxes, fees, or charges of whatever denomination, other than customs duties, shall be imposed on the importation into the Republic of Colombia of articles the growth, produce or manufacture of the United States of America enumerated or described in Schedule One, than those imposed on the day of the signature of this agreement.

ARTICLE II

Articles the growth, produce or manufacture of the Republic of Colombia enumerated or described in Schedule Two annexed hereto ³⁰ and made a part of this agreement, shall, when imported into the United States of America, be exempt from all customs duties and import charges. The provisions of this article shall not apply to coffee imported into Puerto Rico.

ARTICLE III

The provisions of this agreement shall not apply to such special duties as are or may be required by laws of either Contracting Party to be assessed on importations which are not properly marked to indicate their origin, nor to such special duties as may be required by such laws to be assessed on importations which have been sold at less than the foreign market value, or, in the absence of such value, than the cost of production in the country of origin: Provided, how-

²⁹ Signed in English and Spanish; Spanish text not printed. This agreement never came into force. It was replaced by a new agreement signed September 13, 1935; Department of State, Executive Agreement Series No. 89.

³⁰ Not printed.

ever, that no provision regarding the application of special duties to articles sold at less than the foreign market value, or the cost of production in Colombia shall apply to unroasted coffee originating in the Republic of Colombia and imported into the United States of America.

ARTICLE IV

All articles the growth, produce, or manufacture of either Contracting Party after importation into the territory of the other Party shall be exempt from any national or federal taxes or charges other or higher than those payable on like articles of national origin.

Articles the growth, produce or manufacture of the United States of America enumerated or described in Schedule One annexed hereto, shall be exempt from any internal taxes or charges imposed by any Department or Municipality of the Republic of Colombia other or higher than those imposed on like articles of national origin: Provided, however, that this provision shall not apply to those articles the growth, produce or manufacture of the United States of America included in Schedule One which are also enumerated or described in Schedule Three annexed hereto ³² and made a part of this agreement. Reciprocally, those articles the growth, produce or manufacture of the Republic of Colombia enumerated or described in Schedule Two annexed hereto, shall, after importation into the United States of America, be exempt from any internal excise or consumption taxes affecting interstate or foreign commerce, other or higher than those imposed on like articles of national origin.

All articles the growth, produce or manufacture of the United States of America enumerated or described in Schedule One annexed hereto shall, after importation into the Republic of Colombia, be exempt from all national and from all Departmental or Municipal taxes or charges other or higher than those in force on the day of the signature of this agreement; and all articles the growth, produce or manufacture of the Republic of Colombia enumerated or described in Schedule Two, shall, after importation into the United States of America, be exempt from all federal excise or consumption taxes; and from all State or Municipal excise or consumption taxes affecting interstate or foreign commerce, other or higher than those in force on the day of the signature of this agreement. However, if any Municipality, Department or State of either Contracting Party has not in force on the day of the signature of this agreement a tax or charge equal to that in force in another Municipality, Department or State of the same Party, said Municipality, Department or State may establish or increase such tax or charge provided that such tax or charge

³² Not printed.

when so established or increased does not exceed the highest tax or charge in force on the day of the signature of this agreement in another Municipality, Department or State of the respective Party.

It is understood that the provisions of the second and third paragraphs of this article apply to any internal excise or consumption taxes imposed within the United States of America which are or may be subject to statutory control by the Federal government in the exercise of its constitutional powers.

In so far as rates and charges for transportation services within either country are imposed or controlled by the respective Contracting Party, goods which are grown, produced, or manufactured in the territory of either of the two countries shall pay within the territory of the other country transportation rates and charges which are not discriminatory as compared with the rates and charges on like goods of domestic origin transported under like circumstances and conditions.

ARTICLE V

No prohibition or restriction on importations shall be imposed by either Contracting Party on articles the growth, produce or manufacture of the other Party with respect to which obligations have been assumed under Articles I and II, respectively, of this agreement: *Provided, That* the foregoing provision shall not apply to prohibitions or restrictions relating to public security; imposed on moral or humanitarian grounds; designed to protect human, animal, or plant life; or applying to prison-made goods and goods the product of forced labor.

ARTICLE VI

Unless otherwise provided under constitutional requirements, no administrative ruling by either Contracting Party effecting advances in duties or charges applicable to imports, from the territory of the other Party, shall become operative until at least thirty days after public notice thereof in the usual official manner. The provisions of this article do not apply to administrative orders imposing anti-dumping duties, relating to sanitation or public safety, or giving effect to judicial or customs courts' decisions.

ARTICLE VII

It is agreed that the United States of America and the Republic of Colombia will grant each other unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and subsidiary charges of every kind and in the method of levying duties, and, further, in all matters concerning the rules, for-

malities and charges imposed in connection with the clearing of goods through the customs.

Accordingly, natural or manufactured products having their origin in either of the countries shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territory of either Party and consigned to the territory of the other shall in no case be subject with respect to exportation and in regard to the above-mentioned matters, to any duties, taxes or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products when consigned to the territory of any other country are or may hereafter be subject.

Any advantage, favor, privilege or immunity which has been or may hereafter be granted by either country in regard to the above-mentioned matters, to a natural or manufactured product originating in any other country or consigned to the territory of any other country shall be accorded immediately and without compensation to the like product originating in or consigned to the territory of the other Party.

Without prejudice to the provisions of Article V of this agreement, neither Party shall establish any prohibition or maintain any restriction on imports from the territory of the other which is not applied to the importation of any like article originating in any other country. Without prejudice to the provisions of Article V of this agreement, any abolition of an import prohibition or restriction which may be granted even temporarily by either of the Parties in favor of an article of a third country shall be applied immediately and unconditionally to the like article originating in the territory of the other Party.

In the event of rations or quotas being established by either Party for the importation of any article otherwise restricted or prohibited, it is agreed, without prejudice to the provisions of Article V, that in the allocation of the quantity of restricted goods which may be authorized for importation, the other Party will be granted a share equivalent to the proportion of the trade which it would normally enjoy.

Nevertheless, the advantages now accorded or which may hereafter be accorded to other adjacent countries in order to facilitate frontier traffic, and advantages resulting from a customs union which may be concluded by either country shall be excepted from the operation of this article; and this article shall not apply to police or sanitary regulations or to the commerce of the United States of America with the

Republic of Cuba, or to commerce between the United States of America and the Panama Canal Zone, the Philippine Islands, or any territory or possession of the United States of America or to the commerce of the territories and possessions of the United States of America with one another.

Subject to the reservations set forth in the preceding paragraph the provisions of this article shall apply to articles the growth, produce or manufacture of any region under the sovereignty or authority of either Party imported from or exported to any region under the sovereignty or authority of the other Party. It is understood, however, that the provisions of this paragraph do not apply to the Panama Canal Zone.

ARTICLE VIII

Except as provided in Article VII the provisions of this agreement shall not apply to the Philippine Islands, the Virgin Islands, American Samoa, the Island of Guam, nor to the Panama Canal Zone.

ARTICLE IX

Nothing in this agreement shall be construed in any wise to affect any of the provisions of the treaty signed at Bogotá, April 6, 1914, by the United States of America and the Republic of Colombia.³³

ARTICLE X

The two Contracting Parties declare that the purpose of this agreement is to grant mutual and reciprocal concessions and advantages for the promotion of commercial relations between the two countries; and that each and every one of the provisions contained herein shall be complied with and interpreted in accordance with this spirit and intention.

ARTICLE XI

The present agreement shall come into force on the day on which the President of the United States of America and the President of the Republic of Colombia shall have notified each other that all the legislative and administrative steps necessary for the strict fulfillment of all of the provisions of this agreement have been taken. The present agreement shall remain in effect for two years from the day on which it shall have become operative. It is agreed that if either of the parties does not inform the other in writing on six months' prior notice of its intention to terminate this agreement, it shall continue in effect until six months from the day upon which one of the Parties

³³ *Foreign Relations*, 1914, pp. 163-164.

shall have informed the other in writing of its intention to terminate it.

In witness whereof the respective Plenipotentiaries have signed this agreement and have affixed their seals hereto.

Done in duplicate, in the English and Spanish languages, both authentic, at the City of Washington, this 15th day of December, 1933.

For the President of the United States of America:

WILLIAM PHILLIPS

For the President of the Republic of Colombia:

FABIO LOZANO T.

**REPRESENTATIONS TO THE PRESIDENT OF COLOMBIA AGAINST
BILLS FOR THE SUSPENSION OF DEBT SERVICE ON EXTERNAL
OBLIGATIONS OF THE GOVERNMENT OF COLOMBIA**

821.51/1658a : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, June 12, 1933—5 p. m.

55. Early in April the Colombian Government announced that because of the situation arising out of the conflict between Colombia and Peru³⁴ and the necessity for heavy military expenditures, it would be compelled to suspend interest payments on the National Government external funded debt and the guaranteed bonds of the Agricultural Mortgage Bank. The Department fully appreciated the compelling nature of the reasons which motivated the Colombian Government in reaching this decision. It therefore felt that it should not broach the matter to the Colombian Government.

With the signing of the Geneva agreement on May 25,³⁵ however, and the cessation of hostilities, the Department considers that the situation has materially altered. The Department therefore desires you at an early opportunity to seek an interview with President Olaya and frankly discuss with him the question of the possibility of Colombia's continuing full cash interest payments on the National Government funded debt and guaranteed agricultural mortgage bonds. You may say that as Colombia has made great sacrifices during the last 2 years in meeting its national external obligations, it would be very regrettable if it could not carry through what may be the last stretch of the depression. Colombia has built up an enviable record for debt payment during this depression and her credit standing has consequently greatly improved relative to that of certain other Latin American countries. Should Colombia with her dispute with Peru in prospect of settlement now default on her National Government

³⁴ See vol. iv, pp. 384 ff.

³⁵ League of Nations Treaty Series, vol. cxxxviii, p. 253.

obligations it would be difficult for the American bondholder to understand and Colombia's credit would suffer accordingly. The bondholder feels that Colombia's economic situation is relatively good, that her gold reserves and favorable trade balance make it possible to continue cash interest payments, and that in view of the large percentage of Colombia's exports taken by the United States it is only fair to expect that such payments will be made. In view of the foregoing the Department very much hopes that President Olaya will be able to make full cash payment on the coupons falling due in July.

PHILLIPS

821.51/1665 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, June 19, 1933—9 p. m.

[Received June 20—12:01 a. m.]

58. Department's telegram No. 55, June 12, 5 p. m. Discussed question at length with Olaya today. He expressed appreciation Department's point of view and regretted conditions necessarily made his own stand differ. It may be expressed as follows:

Leticia incident has necessarily upset his financial plans and caused great abnormal expenditures. Commitments for emergency purchases already made will continue for some time as will added expenses. For most part these must be met abroad. Greatly decreased balance of trade makes exchange situation difficult. Interest on short-term banking loan was reduced by agreement (despatch No. 5435 ³⁶) but there was no organization with which he could deal regarding foreign bonded debt. Consequently he fell back reluctantly on scheme suggested by Hallgarten ³⁷ (despatch No. 5646) ³⁸ which Government will follow during current year. Rublee ³⁸ has full details regarding negotiations.

Olaya stated he is seriously considering refunding entire foreign debt including that of departments and municipalities, covering obligations of latter by assignment to national government of adequate revenues. He expressed frank hope such refunding would result in reduction of total capital and interest.

Olaya mentioned possibility of using proposed American semi-official bondholders' committee in refunding operations. I told him I thought that still purely nebulous. As he has previously expressed marked interest could Department inform me of present status?

DAWSON

³⁶ Not printed.

³⁷ Hallgarten & Co., New York.

³⁸ George Rublee, Colombian Government's financial adviser in the United States.

821.51/1669

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5668

BOGOTÁ, June 21, 1933.

[Received June 28.]

SIR: With reference to the Legation's telegram No. 58 of June 19, 9 p. m., and its despatch No. 5666 of June 20, 1933,⁸⁹ regarding the plans of the Colombian National Government for payment of interest on its external funded debt during the current year, I have the honor to report that I am reliably informed that the scrip to be issued during the current year in payment of two-thirds of the interest due on the foreign funded debt may be made interest-bearing instead of non-interest-bearing as originally contemplated, and that consideration is being given to the possibility of having the scrip amortized in four annual increments beginning December 31, 1934, instead of merely making it amortizable in four years or less.

In connection with the consideration by President Olaya and Dr. Esteban Jaramillo, Minister of Finance and Public Credit, of possible refunding operations to cover the foreign debt not only of the National Government but also of the various departments and municipalities, the former informed me when I saw him on June 19 that if the National Government assumed the foreign obligations of subordinate governmental entities it would insist on the allocation by them to the National Government of sufficient revenues to cover service of their portion of the total debt. He contemplated that revenues assigned would be such as local taxes on beer, other alcoholic beverages, etc. Dr. Olaya remarked that he thought a refunding of the entire Colombian foreign debt would result in a material reduction of the total capital and service charges in view of the present quotations in foreign markets of Colombian bonds.

Respectfully yours,

ALLAN DAWSON

821.51/1665

The Acting Secretary of State to the Chargé in Colombia (Dawson)

No. 565

WASHINGTON, June 24, 1933.

SIR: Reference is made to the last paragraph of your telegram No. 58 of June 19, wherein you ask to be informed of the present status of the "proposed American semi-official bondholders' committee". The Department, presuming that you referred to the "Corporation of Foreign Security Holders" provided for in the Securities Act of 1933, replied that it is not in a position to forecast the eventual action that may be taken regarding the formation of this Corporation.

⁸⁹ Despatch No. 5666 not printed.

It will be noted that Section 211 of Title II of the Securities Act of 1933, a copy of which is enclosed herewith,⁴⁰ provides as follows:

"This title shall not take effect until the President finds that its taking effect is in the public interest and by proclamation so declares."

The Department is not aware of the President's intentions in this matter.

Very truly yours,

For the Acting Secretary of State:
FRANCIS WHITE

821.51/1670

The Chargé in Colombia (Dawson) to the Acting Secretary of State

No. 5682

Bogotá, June 26, 1933.

[Received July 1.]

SIR: Referring to the Legation's previous reports, particularly to despatch No. 5666 of June 20, 1933,⁴¹ regarding the plans of the Colombian National Government for payment of interest on its external funded debt, I have the honor to report that the original plan (the Legation's despatch No. 5646 of June 9, 1933⁴¹) to have one-third of the interest due during the current year paid in cash and two-thirds in non-interest-bearing scrip, amortizable on October 1, 1937, or any prior date at the option of the Government, will be followed. The possible modifications in the plan outlined in the first paragraph of the Legation's despatch No. 5668 of June 21, 1933, seem to have been abandoned without serious consideration.

It is understood that an announcement of the Government's offer was made in New York yesterday.⁴² It is further understood that the offer covers not only the 35 million and 25 million dollar loans of the Colombian Government floated in the United States but also the loans of the Agricultural Mortgage Bank guaranteed by the Government.

Respectfully yours,

ALLAN DAWSON

821.51/1722 : Telegram

The Chargé in Colombia (Dawson) to the Secretary of State

Bogotá, October 28, 1933—11 a. m.

[Received 12:45 p. m.]

84. Despatch No. 5919, October 20th.⁴¹ Bill providing for suspension of debt service still being paid in cash passed by House in

⁴⁰ 48 Stat. 74, 95.

⁴¹ Not printed.

⁴² The contract was signed in New York on June 30, 1933, renewing the loan to September 30, 1933. A further contract was signed at the end of September renewing the loan to December 31, 1933. (821.51/1692, 1719)

second debate during secret session yesterday. Will probably pass in third debate today and be considered by the Senate shortly.⁴⁴ Understand scrip representing two-thirds of interest on Hallgarten issues will continue to be issued until expiration of the present scrip agreement.

DAWSON

821.51/1722 : Telegram

The Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, October 31, 1933—4 p. m.

73. Your telegram No. 84, October 28, 11 a. m. The Department desires you to seek an early interview with President Olaya and say to him that we are much surprised at the passage by the House during a secret session in second debate of a bill providing for the suspension of debt service and trust that the bill does not represent his views. We are aware of no developments of an economic nature in Colombia which would require a suspension of the present extremely reduced debt service payments still being maintained. On the contrary the 15 percent of all foreign exchange drafts to be retained by the Bank of the Republic appears to be ample to cover present cash debt service payments as well as to provide a considerable sum for government purchases abroad. Complete suspension of all cash debt service would therefore seem difficult to justify. Furthermore, October 20th, the White House publicly announced a project for the formation of a central bondholders organization for handling the whole question of debts of foreign countries owing to citizens of this country.⁴⁵ It will be recalled that President Olaya has several times expressed interest in just such an organization (your telegram No. 58, June 19). It would seem particularly unfortunate, therefore, for Colombia to suspend debt service at the very moment when active steps are being taken for completion of this organization, especially when such action is considered in connection with the recent mortgage bank reorganization scheme which appears to discriminate against foreign bondholders.

HULL

⁴⁴ By telegram No. 85, October 31, the Chargé informed the Department that the bill had passed the House in third debate in form providing for suspension of service on external funded debt but not on short-term banking loan (821.51/1723).

⁴⁵ See Department of State, *Press Releases*, October 21, 1933, p. 227.

821.51/1728 : Telegram

The Chargé in Colombia (Dawson) to the Secretary of State

BOGOTÁ, November 5, 1933—9 p. m.

[Received 11:40 p. m.]

86. Your telegram No. 73, October 31, 4 p. m. Discussed matter with Olaya yesterday. He said that he is distinctly opposed to legislation causing suspension of present foreign debt service whether, (1) directly, as in the bill now before the Senate, or (2) by the failure to include necessary appropriations in the budget. He expressed confidence that, as a result of conversations with López and Senate leaders, bill would either be defeated or amended to innocuous form by the Senate. He discounted possibility of second alternative as Congress will probably adjourn without passing budget.

He failed to show interest in central bondholders organization saying that he hoped to continue to meet debt service as at present while in office and leave settlement of foreign debt question to next administration.

DAWSON

821.51/1734 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 11, 1933—9 a. m.

[Received 1:50 p. m.]

88. My telegram No. 86, November 5, 9 p. m. House of Representatives deleted items legislative budget for service of the foreign debt both funded and banking before passing it in second debate on November 4th and third debate on November 6th. Local press suppressed mention of the failure to appropriate for debt service and it became known only on belated receipt of *Anales* November 9th. Yesterday Senate hurriedly passed budget in second debate, restoring item to pay interest on short-term banking loan (appropriating however only 600,000 pesos instead of 960,000 necessary if present rate of interest is maintained) and inserting one to provide for 4 percent interest on scrip to be issued in lieu of cash interest payments on the foreign funded debt. Budget should receive third debate in the Senate today and be returned to the House for consideration amendments Monday. Debt service suspension bill proper appears to have been shelved in the Senate.

There is danger also of the enactment of a bill providing among other things for the discharge of most obligations in foreign currency by payment of the equivalent in Colombian currency at the rate of exchange on the date of contraction of the obligation (my despatch

No. 5905 of October 14 ⁴⁷). The bill was passed by the Senate in second debate yesterday, will probably receive third debate today and reach the House early next week. Congress is expected to adjourn November 17th.

DAWSON

821.51/1735 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 13, 1933—6 p. m.

[Received 8:43 p. m.]

89. Second paragraph my telegram number 88, November 11, 10 [9] a. m. Bill was passed Senate in third debate Saturday and is now before House of Representatives. It provides also that forced sale of mortgaged property shall not be effected unless bid received is at least equal to appraised value of property. Provisions of law 37 of 1932 (despatch number 4806 of November 28, 1932 ⁴⁷) and of bill itself are extended to include mortgages held by insurance companies. National City Bank has instructed its local manager to present energetic protest and request assistance of the Legation.

DAWSON

821.51/1734 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, November 13, 1933—7 p. m.

75. Your telegrams No. 86 of November 5 and No. 88 of November 11. As President Olaya told you that "he is distinctly opposed to legislation causing suspension of present foreign debt service" either directly or through failure to include necessary appropriations in the budget, the Department assumes that he will use his influence to have the appropriation restored when the budget bill is returned to the House. Is final passage of a budget bill probable?

The Department hopes that Olaya will likewise strongly oppose the bill discussed in paragraph 2 of your No. 88.

PHILLIPS

821.51/1736 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 14, 1933—1 p. m.

[Received 4:11 p. m.]

90. Your 75, November 13, 7 p. m. Partial restoration by the Senate of foreign debts service items was due to efforts of Olaya and

⁴⁷ Not printed.

Jaramillo. It was evident from the debate in the House on the budget yesterday that majority was in favor of complete elimination of these items. Senate amendments were, however, accepted by close vote and bill was passed in second debate in order to ensure enactment of the budget. It will receive third debate today and go to the President for signature.

Uncertain whether the bill discussed second paragraph of my telegram No. 88, and my 89, will pass House in short time remaining although sentiment therein is favorable to it. All banks in Bogotá foreign and national including the two semi-official mortgage banks yesterday presented signed protest against its principal provisions to the President of the House.

Expect to see Olaya this afternoon. Do not believe that he will consider vetoing budget in view of political situation but hope he will use his waning influence in the House against the debt bill.

DAWSON

821.51/1738 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

Bogotá, November 16, 1933—4 p. m.

[Received 5:25 p. m.]

91. My 90, November 14, 1 p. m. Sessions of Congress extended to November 21st by Executive decree. House has begun debate on debt bill.

Olaya has put off seeing me. It seems very evident he does not wish to discuss matter.

DAWSON

821.51/1743 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

Bogotá, November 20, 1933—11 a. m.

[Received 12:20 p. m.]

92. My 91, November 16, 4 p. m. House passed bill in third debate yesterday with amendments making reconsideration by the Senate necessary.⁴⁸ Provisions discussed my 88 and 89 are less objectionable in altered form.

DAWSON

⁴⁸ By telegram No. 93, November 21, the Chargé informed the Department that "Senate passed debt bill as amended by the House before adjournment of Congress sine die today." (821.51/1744)

821.51/1746a : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, November 23, 1933—2 p. m.

78. A *New York Times* despatch, under Bogotá date line of November 22, states: "Paper currency was made legal tender for 5 years for the payment of all obligations stipulated as payable in gold, excepting import and export duties." Since we have proceeded on the basis that duties would be payable as previously in paper pesos, the present draft of the trade agreement⁴⁹ makes no mention of the type of currency to be used in paying these duties. It is obvious that the duty concessions in the proposed agreement will be largely ineffective if importers must pay in gold.

Please telegraph urgently whether Congress has in fact passed such a law.

PHILLIPS

821.51/1747 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 23, 1933—6 p. m.

[Received 11:10 p. m.]

94. Your 78, November 23, 2 p. m. *New York Times* report is complete misinterpretation of certain provisions of debt bill, translation of which is given in my telegram 96, November 23, 10 p. m.⁵⁰ Bill does not affect payment of duties.

DAWSON

821.51/1748 : Telegram

The Chargé in Colombia (Dawson) to the Acting Secretary of State

BOGOTÁ, November 23, 1933—10 p. m.

[Received November 24—12:54 a. m.]

96. Article 2 of debt bill reads in translation:

"Obligations originally contracted in foreign currencies shall be paid, principal as well as interest, in Colombian currency at the rate quoted for the respective currencies on the date the obligation was contracted unless such obligations arise from import transactions or from sales contracts covering products for export.

⁴⁹ See pp. 217 ff.

⁵⁰ *Infra*.

Obligations contracted in Colombian gold coin shall be paid at par in Colombian gold notes or in notes of the Bank of the Republic. Those contracted in any other kind of gold coin shall be paid in the same bills according to the intrinsic par of such moneys in relation to Colombian gold coin.

The provisions of the foregoing paragraph shall be effective for 5 years unless the exchange of banknotes of the Bank of the Republic for gold shall have been reestablished before the expiration of that period."

First paragraph affects all American interests having dollar debts due to them except exporters. United Fruit Company hit both ways as debts owed to it (dollar advances to banana planters and the Colombian Government) would be repaid at the rates current when the debts were contracted whereas its dollar obligations in Colombia (contracts to buy bananas) would have to be met in dollars or peso[s] equivalent at existing rate of exchange. National City Bank considers that signature of the bill by the President would be contrary to the spirit of clause 20 of the contract embodied in decree 171 of 1933 (Legation's despatch No. 5140 ⁵¹) whereby the Government agreed in effect to require no further concessions to debtors by banks.

Both concerns are trying to get President to veto bill and have requested Legation's assistance.

After my telegram No. 91 of November 6 [16], 4 p. m. I dropped efforts to see Olaya but have discussed bill informally several times with the Minister of Foreign Affairs. Latter has expressed the belief article 2 is unconstitutional and other provisions unjust but he has little influence on the President. Does the Department wish me to take further steps? Bill may be signed at any moment.

DAWSON

821.51/1748 : Telegram

The Acting Secretary of State to the Chargé in Colombia (Dawson)

WASHINGTON, November 25, 1933—4 p. m.

79. Your 96, November 23, 10 p. m. Endeavor to see Olaya at once and ascertain if there is any possibility of his vetoing Article 2 of the Debt Bill, and also, any possibility of his vetoing the Budget Bill in view of failure to include any appropriation for funded debt services.

PHILLIPS

⁵¹ Not printed.

821.51/1752 : Telegram

The Minister in Colombia (Whitehouse) to the Acting Secretary of State

BOGOTÁ, November 30, 1933—6 p. m.

[Received 7:50 p. m.]

100. Our 97, November 27 [26], noon.⁵² Despite repeated efforts Dawson has been unable to see Olaya, but his private secretary told Dawson that the President would sign the debt bill before tomorrow evening. President would, however, point out at the same time the advisability of Congress in its next session amending the act in certain particulars.

WHITEHOUSE

821.51/1757

The Minister in Colombia (Whitehouse) to the Acting Secretary of State

No. 9

BOGOTÁ, December 5, 1933.

[Received December 9.]

SIR: Referring to my telegram No. 100 of November 30, 6 p. m., and previous correspondence concerning the Debt Act recently passed by both Houses of the Colombian Congress, I have the honor to report that President Olaya signed the bill on November 30, 1933, back-dating it, however, to November 28, 1933, in order to be within the time limit of six days established by the Constitution. Copies and translations of the law as signed were transmitted with the Legation's despatch No. 5969 of November 24, 1933.⁵² Official copies of the law will be forwarded as soon as it is published in the *Diario Oficial*.⁵³

After signing the law, President Olaya sent a message to the President of the Senate, in which the bill originated, making observations regarding certain of the provisions of the law and stating that the Government would present a bill containing proposed amendments to Congress at its next sessions. Copies and translations of the President's message are enclosed.⁵²

It will be noted that the President did not comment upon Article 2 of the law, the most objectionable portion thereof from the point of view of foreign interests, except to state that it should not be applied to obligations of the National Government. The reason back of this is the Government's desire and intention to repay the dollar ad-

⁵² Not printed.⁵³ Law 46 of November 28, 1933, was published in the República de Colombia, *Diario Oficial* of December 5, 1933. (No. 22455, p. 521.)

vances made to it by the United Fruit Company in full rather than at the rates stipulated by Article 2 for obligations in foreign currency.

The commercial banks established in Bogotá, both foreign and native, as well as some of the insurance companies operating in Colombia, have recently held several meetings to decide upon the course of action to be taken in defending themselves against the most prejudicial provisions of the debt law. It is understood that they have reached a decision to attack the law in the courts, concentrating on the apparent unconstitutionality of Article 2.

Respectfully yours,

SHELDON WHITEHOUSE

COSTA RICA

INFORMAL SUGGESTIONS OF THE UNITED STATES WITH RESPECT TO THE CANAL PROVISIONS OF THE PROPOSED TREATY OF COM- MERCE AND NAVIGATION BETWEEN COSTA RICA AND ITALY

718.652/5a

The Secretary of State to the Minister in Costa Rica (Eberhardt)

No. 174

WASHINGTON, March 15, 1932.

SIR: The Department has received the Legation's despatches No. 641 of October 14, 1931, and No. 702 of December 3, 1931,¹ relating to a proposed Treaty of Commerce, Navigation and Consular Rights between Costa Rica and Italy.

The suggestion in the later despatch that Article 20 of the proposed Treaty² might conceivably interfere with future negotiations between the United States and Costa Rica in respect of the projected Nicaragua Canal³ is of particular importance and interest. While the Department has been unable to perceive in the proposed article any basis for formal representations to the Costa Rican Government at this time, you are authorized, in case you deem desirable, informally, orally and confidentially to suggest to the appropriate Costa Rican officials the apparent inexpediency of placing in a treaty with another Government a provision whereby the nationals of the latter would automatically enjoy the same rights as Costa Rican citizens in the use of canals,—and which may, in case a treaty having in view the construction of an interoceanic canal is eventually negotiated between the United States and Costa Rica, furnish an element of difficulty in such negotiations.

The Department desires you carefully to watch the situation, to keep it informed of any developments and to transmit, when available, the text of the proposed treaty in the original language or languages.

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

¹ Neither printed.

² The text of the article, in part, is as follows: "Subjects of one of the Parties will have liberty to use in the territory of the other, under the same conditions and on payment of the same duties as nationals, the roads, canals, locks . . ."
(718.652/1).

³ See *Foreign Relations*, 1923, vol. I, pp. 834 ff.

718.652/6

The Minister in Costa Rica (Eberhardt) to the Secretary of State

No. 836

SAN JOSÉ, March 29, 1932.

[Received April 6.]

SIR: I have the honor to refer to Instruction No. 174 of March 15, 1932 in respect of the wording of future treaties of Commerce, Navigation and Consular Rights which the Republic of Costa Rica may consider entering into with particular reference to any provisions in such treaties whereby nationals of the other contracting States would enjoy the same rights as Costa Rican citizens in the use of canals, and which may, in case a treaty having in view the construction of an interoceanic canal is eventually negotiated between the United States and Costa Rica, furnish an element of difficulty in such negotiations.

As the Department is aware, a new President, and his Government, will enter into office during the coming month of May,⁴ and at the present moment Don Ricardo Jiménez is apparently the person who will be chosen Chief of State. During a conversation which Mr. Werlich⁵ had yesterday with Mr. Ricardo Castro Beeche, formerly private secretary to Ricardo Jiménez and the latter's present administrative manager, the impression was obtained that in all likelihood no treaties of Commerce, Navigation and Consular Rights will be entered into by the new régime, individual informal agreements being considered more satisfactory to Costa Rican interests. Thus it is possible that the Legation will not need to take any steps toward the discouraging of granting special rights to foreign powers by Costa Rica through treaties which might furnish an element of difficulty in negotiations by the United States. However, I shall keep the Department's point of view in mind in case the situation as outlined in Instruction No. 174 should arise.

Respectfully yours,

CHARLES C. EBERHARDT

718.652/8

The Minister in Costa Rica (Eberhardt) to the Secretary of State

No. 1256

SAN JOSÉ, January 5, 1933.

[Received January 11.]

SIR: In continuation of despatch No. 1085-G (page 10—section II-h) of September 12, 1932,⁶ I have the honor to report that a

⁴ See *Foreign Relations*, 1932, vol. v, pp. 512 ff.

⁵ McCeney Werlich, Third Secretary of the Legation in Costa Rica.

⁶ Not printed.

temporary customs agreement was signed at this capital on January 3, 1933 between the Italian Minister to Costa Rica, Count V. Negri, and Dr. Leonidas Pacheco, Minister for Foreign Affairs of the Republic.⁷ This temporary agreement, qualified as a *modus vivendi*, was effected through an exchange of notes and was for the purpose of granting most-favored-nation customs privileges to the two countries, pending completion of the present negotiations for a treaty of Commerce and Navigation.

According to my Foreign Office informant, this *modus vivendi* will not require any concessions on the part of Costa Rica, whose tariff system is "single column"; but it will facilitate Costa Rican exports to Italy through placing these products in the most-favored-nation tariff classification. My informant added that through this concession on the part of Italy, Costa Rican coffee imports into that country will benefit by a tariff reduction of approximately \$7.00 per metric ton.

Count Negri arrived at San José during the latter days of December 1932 and has taken a house here with the avowed intention of staying for at least two months. He has remarked that the sole purpose of his trip is to arrange for a treaty of Commerce and Navigation. I have been told at the Foreign Office that the treaty now contemplated will be very similar to the one signed during October 1932 with Germany,⁸ and not along the lines of the document which was transmitted with despatch No. 641 of October 14, 1931.⁹

Respectfully yours,

For the Minister:
McCENEY WERLICH
Secretary of Legation

718.652/10

The Minister in Costa Rica (Eberhardt) to the Secretary of State

No. 1485

SAN JOSÉ, June 8, 1933.

[Received June 14.]

SIR: With special reference to my despatch No. 1395 of April 11, 1933,⁹ I have the honor to state that the Minister for Foreign Affairs advises me that the Treaty of Commerce and Navigation with Italy, the same in practically every detail as the draft already in the

⁷ Reference is evidently to the provisional commercial agreement effected by exchange of notes, dated December 21 and December 23, 1932, and ratified by Costa Rica and Italy in January 1933; Italy, R. Ministero degli Affari Esteri, *Trattati e Convenzioni fra il Regno d'Italia e gli Altri Stati*, vol. 45, pp. 509-511.

⁸ For text of treaty signed October 26, 1932, see *British and Foreign State Papers*, vol. cxxxv, p. 470.

⁹ Not printed.

hands of the Department (*vide* despatch No. 641 of October 14, 1931¹⁰), will be signed and published in *La Gaceta* in a few days.¹¹

In compliance with the final statement in my despatch No. 1395, I did not fail to repeat the informal, oral and confidential suggestions concerning

“the apparent inexpediency of placing in a treaty with another Government a provision whereby the nationals of latter would automatically enjoy the same rights as Costa Rican citizens in the use of canals, and which may—in case a treaty having in view the construction of an interoceanic canal is eventually negotiated between the United States and Costa Rica—furnish an element of difficulty in such negotiations”.

The Minister's reply at the time, which he stated reflected the studied opinion of the Chief Executive, was to the effect that since the treaty was to have only five years of life, and probably no canal construction could be or would be seriously considered during that period, it seemed inadvisable to consider any change in the clause referred to. He expressed the further opinion that, on the presentation of a request for renewal (if signed) of the treaty now being considered or a substitute therefor at its expiration, it would be appropriate to discuss the possible elimination of this clause.

With reference to this particular clause, it might be well to remember the opposition which Ricardo Jiménez, (then President) presented to the provisions of the Bryan-Chamorro Treaty.¹² He still lets it be known that he does not consider that the rights of Costa Rica under the proposed Nicaraguan canal construction were given proper or adequate consideration by the United States.

Respectfully yours,

CHARLES C. EBERHARDT

¹⁰ Not printed.

¹¹ The treaty was signed June 14, 1933; ratifications were exchanged December 12, 1933. The treaty and final protocol are printed in *La Gaceta—Diario Oficial*, No. 284, December 14, 1933, and in Italy, *Trattati e Convenzioni*, vol. 46, p. 165.

¹² Convention between the United States and Nicaragua regarding the Nicaraguan Canal route, signed August 5, 1914, *Foreign Relations*, 1916, p. 849.

CUBA

REVOLUTION IN CUBA—EFFORTS OF THE UNITED STATES TO AID IN RESTORING POLITICAL PEACE

I. Increasing Opposition to President Machado and Overthrow of His Government

837.00/3421 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, January 5, 1933—noon.

[Received 1:45 p. m.]

1. My despatch 1472, December 31.¹ Killing of Rubiera was followed by murder on January 3 of ex-policeman Cepero who warned Major Ortiz—see despatch No. 1441, December 8.² Police yesterday arrested several oppositionists, among them a member of student directorate known as Dr. Hernandez whose real name was Alvarez.

The Embassy received numerous requests to insure safety of person[s] in hands of the police. Without making official representations, in each case brought to my attention I informally conferred with Government officials expressing hope that lives would be respected.

Last night I personally called on the Secretary of State in regard to Hernandez and was assured there was no cause for apprehension in this or other cases. Hernandez or Alvarez died shortly after midnight in a hospital to which he had been brought with a bullet in his head. Ferrara³ this morning explained that he had ascertained last night that no person named Hernandez was under arrest.

These killings of prisoners have deeply stirred public opinion and have strengthened belief that no person under arrest is safe from official vengeance. I have asked for appointment with the President and shall endeavor to use my personal influence to discourage further acts of this kind.

GUGGENHEIM

¹ Not printed.

² *Foreign Relations*, 1932, vol. v, p. 564.

³ Orestes Ferrara, Cuban Secretary of State.

837.00/3423 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, January 9, 1933—4 p. m.

[Received 8:09 p. m.]

3. My telegram No. 1, January 5, noon. I saw the President this morning. He did not attempt to disclaim Government's responsibility for recent murders of students which he characterized as a stupid mistake. He said that in future the lives of prisoners would be respected. His attitude during our conversation was most cordial and he reiterated his willingness to follow any suggestions that I might care to make at any time. I stressed the imperative need of measures designed to restore public confidence which he has repeatedly promised to take but has not carried out.

GUGGENHEIM

837.00/3428 : Telegram

Memorandum by the Assistant Secretary of State (White)

[WASHINGTON,] January 10, 1933.

The Cuban Chargé d'Affaires, Mr. Barón, called and after first discussing briefly the Chaco matter⁴ said that he had a letter from Señor Ferrara directing him to discuss with me the events that took place in Cuba last week. He said that the Government regretted very much the bloodshed that had occurred and then Mr. Barón gave a somewhat involved description of what took place when the students were killed. One student pulled out a gun and the police, as well as the terrorists, he said, are jumpy on account of what has taken place; each side is looking out to save itself and when the student pulled out his pistol the police shot him. With regard to Alvarez, he said that the police had found that this man was the one who had participated in the assassination, if he had not indeed been the principal assassin, of Vásquez Bello.⁵ The police found that this man was being hidden in a certain house belonging to a Señor Cuervo and had gone there to get him. Mr. Barón was not clear as to what happened from that point on except that Alvarez was finally shot. Mr. Barón then said that he had made an *aide-mémoire* for himself to remember what Ferrara's letter contained. He said that this memorandum contained the main points in Mr. Ferrara's letter although the wording was somewhat different and he left it with me. It is attached hereto.⁶

⁴ See vol. iv, pp. 241 ff.⁵ See *Foreign Relations*, 1932, vol. v, p. 557.⁶ Not printed.

I told Mr. Barón that I had been much shocked by the news that came from Cuba last week and that this sort of thing was doing Cuba and President Machado's government a great deal of harm. Mr. Barón said that he agreed and he thought it most unfortunate. I told him that having known Ferrara for some time I had great hopes when he went down to Cuba that this sort of thing would cease. I said I realized the difficulties the Government is having with the Opposition but that nevertheless I could see no excuse for this sort of thing and that these continual assassinations, the closing of universities, muzzling of the press, et cetera, were certainly doing Cuba a great deal of harm in the outside world. Mr. Barón said he agreed but that the situation was very difficult; that the Opposition were without leaders and could not be dealt with. I said I realized the difficulty of dealing with some of the opponents of the Machado Administration but I thought it incumbent upon the Government, as its first task, to try by some means to reestablish confidence in Cuba. I said that from this distance it was not possible to indicate the means by which this could be done; that that was something which the Cuban Government would have to study over and find out for itself. I said I thought they should direct their attention primarily to this matter. I said that of course Ambassador Guggenheim had taken an interest in this matter but he was only interpreting the general public sentiment in this country in counselling the Cuban Government as I was doing, to do something to better conditions.

Mr. Barón said he realized the bad effect that this was having and referred to the attacks that came out in *La Prensa* of New York against Cuba. I told him that it was not just *La Prensa* but American papers as well. Mr. Barón said yes, that he had seen a number of articles recently in the *New York Times* which were not favorable to Cuba. I told Mr. Barón that they would have to expect this same sort of thing as long as present conditions prevail in Cuba.

F[RANCIS] W[HITE]

837.00/3456

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 1532

HABANA, February 28, 1933.

[Received March 3.]

SIR: I have the honor to report that there have been a number of occurrences during the past fortnight which may be regarded as symptomatic of the increasing state of unrest prevailing in Cuba.

Beginning on February 13, when the police arrested two lawyers and three other employees of the firm of Rosales and Lavedan, attor-

neys for the National City Bank of New York and other American enterprises, and a group of seven young men alleged to have been surprised at a secret meeting in a down town office building, the authorities have shown increased diligence in the apprehension of persons suspected of conspiring against the Government.

February 24th being a national holiday, the customary precautions were observed from the 23rd to the 25th for the maintenance of order, and with the exception of eight bomb explosions on the night of the 23rd, the seizure of supplies of arms and ammunition in the building formerly occupied by the local Y. M. C. A. and numerous arrests of alleged conspirators, the day passed off quietly in Habana.

It is understood that the "A. B. C." or the left wing students organization, or possibly both, had announced their intention of creating disturbances in various parts of the city, but, with the exceptions mentioned above, their plans failed to materialize. It was also reported that the same groups had called upon all opponents of the Government to restrict their expenditures, beginning February 24, to the necessities of life and especially to refrain from purchasing gasoline, thus depriving the Government of essential revenues. There is no sign that this appeal has met with any response, nor is it reasonable to suppose that it could have been otherwise in view of the well-recognized fact that the impoverished condition of the Cuban people has long since forced them to adapt their lives to the most stringent economies.

Reports from the interior are somewhat less reassuring. Disregarding rumors, of which there have been some of a disquieting nature, mention may be made of the following incidents the authenticity of which has been confirmed by official sources.

During the past week four trains were derailed in different parts of the island, two on the lines of the British-owned United Railways of Habana and two on those of the American-controlled Consolidated Railways of Cuba.

On the night of February 23 a switch and a culvert at Colorado, a small town in Camaguey Province, were destroyed and a train was derailed. On the same night a train was derailed between Puerto Tarafa and Ciego de Avila, also in Camaguey Province. Two nights later a bomb caused the derailment of a train in Matanzas Province. In none of these cases was anyone injured. However, on the night of February 26, the engineer and fireman of a United Railways freight train were killed when their locomotive and five cars were derailed when passing over a switch that had been torn up.

On February 23 and 24 telephone and telegraph wires were cut in several places, principally in Camaguey Province, but the Embassy is informed that this damage has since been repaired.

The Embassy's Military Attaché has been able to obtain confirmation of a report that on February 23 a group of about 7 men attacked the Rural Guard post at Central San Antonio, Oriente Province. Only two of the guards were in the barracks at the time. One of them jumped out of the window and succeeded in driving off the attacking party, wounding at least one of them. These men came from the city of Guantanamo and are known to the authorities who are now endeavoring to round them up.

A party of about 20 men, described by the General Staff as a marauding band, is operating near the boundary line between the provinces of Santa Clara and Camaguey, with headquarters apparently at Guadalupe. These men have been burning canefields and destroying other property. Detachments of the Army are said to be closing in on them and their capture is expected within a few days.

Respectfully yours,

HARRY F. GUGGENHEIM

837.00/3462 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 9, 1933—4 p. m.

[Received 6:20 p. m.]

15. I am reliably informed that the various groups of Cuban Oppositionists in Miami are completing plans for the formation of one united committee of the Opposition under the presidency of Carlos Mendieta. Those joining in this movement include Menocal and his lieutenant, Fraga; Hevia and Mendez Peñate of the Unión Nacionalista; Gómez who has gone to Miami from New York and his supporters, Tapía and Espinosa, and also Mendez Capote and San Martín. Negotiations are now being carried on to include in this committee representatives of the A B C and of the students in Habana.

GUGGENHEIM

837.00/3486

The Chargé in Cuba (Reed) to the Secretary of State

No. 1574

HABANA, April 8, 1933.

[Received April 10.]

SIR: I have the honor to report that, according to information furnished the Embassy from sources believed to be reliable, there were several killings in and near Habana on the night of April 6.

Lieutenant Pau, Military Supervisor of Guanabacoa, was shot and mortally wounded while returning from Habana by unidentified per-

sons in an automobile. Rural guards arriving on the scene are said to have fired indiscriminately at the first group of persons they encountered, seriously wounding or killing three villagers whose curiosity had been attracted by the shots. Policemen along the road into Habana unsuccessfully endeavored to stop an automobile believed to have been the car used by Pau's assassins. One policeman is reported to have been killed and another wounded by the occupants of this automobile.

In the meantime, according to the Embassy's informants, the secret police arrested a young man named Carlos Manuel Fuertes outside of the Payret Theatre in Habana. Fuertes is said to have been a member of the student directorate and to have been in hiding in the theatre for several months past. Later in the night his body was found near the Eremita de las Catalinas on Ayesterán Street. I am also informed that the police arrested one Charles Pemberton, believed to be an American citizen, son of the owner of the Payret Theatre. Pemberton is accused of having sheltered Fuertes, who was wanted in connection with the murder of Vázquez Bello, and another youth named Ildefonso or Mario Alvarez. He was "released" for two days, which means that he has been given an opportunity to leave the country.

There were bomb explosions in Habana and Santa Clara on the night of April 6. In the former city three persons were injured. At Santa Clara the bomb did considerable damage to the principal hotel and killed one person.

None of the above incidents has been reported in the local press.

Respectfully yours,

EDWARD L. REED

837.00/3487

The Chargé in Cuba (Reed) to the Secretary of State

No. 1582

HABANA, April 15, 1933.

[Received April 17.]

SIR: I have the honor to report that a bomb exploded close to the residence of Dr. Ferrara, Secretary of State, on the morning of April 13, killing a small boy aged 3 and seriously wounding a man. This bomb was hidden in an abandoned push-cart and was probably intended for Dr. Ferrara's new and very ostentatious house near the University.

On the night of April 13 there were numerous bomb explosions, variously estimated at from 11 to 17, in different parts of the city, including 2 churches, a theatre and several schools. A few persons are reported to have been injured but information regarding their number and the extent of their injuries is not available.

According to the local correspondent of the *New York Times*, who claims to have been an eye witness, the *ley de fuga* was applied by the police yesterday afternoon to two young men, named Valdez Dassou who, he states, were shot down at 29th and "G" Streets in the Vedado.

Respectfully yours,

EDWARD L. REED

837.00/3493

The Chargé in Cuba (Reed) to the Secretary of State

No. 1583

HABANA, April 17, 1933.

[Received April 21.]

SIR: I have the honor to supplement with the following details my despatch No. 1582 of April 15, 1933, in which I cited the local correspondent of the *New York Times* as authority for the report that two brothers named Valdez had been shot and killed in Habana by persons in the employ of the Government.

Following the large number of bombings on the night of April 13, the investigations of the police led them to suspect the activities of certain persons residing in a house at Campañario No. 103. This house was raided by the police on the afternoon of the 14th and in it were found several bombs similar to those which had been distributed the preceding night. Among the inmates of the house were the Valdez brothers, one of whom, it is said, threw a bomb at the police. The bomb failed to explode and the brothers were taken into custody.

These young men, one of whom was a lawyer and the other a physician, appear to have been closely identified with the more radical opposition element. A third brother was sentenced some time ago to serve eight years in jail after having been found guilty of participation in a plot to kill the President by means of a mined automobile.

Versions differ as to what happened following their arrest. According to the *New York Times* correspondent, who says he saw one of them killed, they were taken in an automobile to 29th and G Streets in the Vedado, told to get out and run for their lives and shot down as they fled by marksmen in civilian clothes who were posted at the top of a high bank overlooking the street intersection at that point.

The police tell a different story. As related to me by Secretary of State Ferrara, who had it from the Chief of the National Police, this version is that the brothers were taken to police headquarters where they broke down and offered to lead the police to a place frequented by their fellow conspirators. The police accepted their offer, placed them in an automobile under guard and set out in accordance with their directions. When the top of "G" Street had been reached, the prisoners endeavored to escape and were shot when they refused to obey

the order to halt. This story is so thin that I doubt very much whether Dr. Ferrara himself believes it.

What probably occurred was that the police, feeling certain that they had captured two of the persons principally responsible for recent bomb outrages in Habana, took the law into their own hands and executed their captives. The alternative would have been to subject the prisoners to a protracted legal procedure in the military tribunals and subsequently in the Supreme Court, with the probability that any sentence commensurate with their offense would have been commuted [*commuted?*] by the next Administration. While this does not, of course, extenuate the reprehensible practice of the Cuban police in applying the so-called *ley de fuga* to their captives, it may at least offer a partial explanation of their conduct. It should also be borne in mind that a good many members of the police force have been murdered, that the police are working under considerable nervous tension and that they are exasperated because popular sympathy is alienated from them to the degree that criminal attacks against them arouse no indignation in the minds of the public.

It is persistently rumored that several other members of the A. B. C. or of the student left wing organization were also killed on Good Friday, but it has not proved possible to confirm these reports.

The Embassy has, however, obtained official confirmation of a story current last week that one private soldier had been fatally shot and another severely wounded when they resisted arrest at the barracks of Battery No. 5 in the Vedado. It appears that the communists had succeeded in establishing there a "cell" composed of a few members of the battery; that this was discovered by the commanding officer who ordered their arrest and that two of them refused to submit.

Respectfully yours,

EDWARD L. REED

123W451/94 : Telegram

The Secretary of State to the Chargé in Cuba (Reed)

WASHINGTON, April 20, 1933—11 a. m.

20. The President desires to appoint Sumner Welles, at present Assistant Secretary of State, as Ambassador Extraordinary and Plenipotentiary of the United States to Cuba.

A full biography of Mr. Welles may be found in the Department's Circular Instruction of April 6, 1933, to American Diplomatic and Consular Officers,⁷ notifying them of the appointment of Mr. Welles as Assistant Secretary.

Ascertain whether the appointment of Mr. Welles would be agreeable to the Cuban Government and cable reply.

HULL

⁷ Not printed.

123W451/95 : Telegram

The Chargé in Cuba (Reed) to the Secretary of State

HABANA, April 20, 1933—1 p. m.

[Received 1:25 p. m.]

34. The Secretary of State of Cuba informs me that the appointment of Mr. Welles is agreeable to his Government.

REED

711.37/178

Statement by Mr. Sumner Welles, Assistant Secretary of State^{7a}

If, and when, my nomination is confirmed by the U. S. Senate, I shall go to Cuba, not as a Special Envoy of the President, but as his permanent Ambassador Extraordinary and Plenipotentiary accredited to the Cuban Government presided over by President Machado.

I am a convinced believer in the policy of the "good neighbor" proclaimed by the President in his inaugural address⁸ and emphatically reiterated in the address delivered on the occasion of the celebration of Pan American Day.⁹ There is no country of the Western Hemisphere with which our relations should be closer or more friendly than with Cuba; or one, in our dealings with which, the policy of the "good neighbor" is more essential. Our historic participation in Cuba's war of independence; our treaty relations; our geographical proximity; and finally, the very practical fact that Cuba is potentially one of the greatest customers of the American Continent for United States goods, and that she herself depends upon fair and generous treatment from the United States for her economic life, all combine to demand today, more than ever before, that the two nations join as equal, sovereign and independent partners in the consideration of those measures best adapted to further the economic and commercial interests of each one of them and of the world at large. It is almost needless to add that such consideration would serve no useful purpose were it not undertaken upon a basis of mutual respect, mutual tolerance, and common advantage.

In accordance with the policy of the Administration of encouraging reciprocal trade agreements, I look forward to undertaking detailed consideration of this vital problem at as early a date as may prove feasible to both Governments.

It will be in that spirit that I shall undertake my official duties. I go to Cuba animated by a peculiar sympathy, which I have held for many years, for the Republic of Cuba and for every element of the

^{7a} Issued by the Department as a press release, April 24, 1933.⁸ *Congressional Record*, vol. 77, p. 5.⁹ Department of State, *Press Releases*, April 15, 1933, p. 243.

Cuban people; welcomed by a generous message from the President of Cuba; and determined, in accordance with my instructions, to further, in every way possible, the joint interests of our two countries.

711.37/178a

The Secretary of State to the Appointed Ambassador in Cuba (Welles)

No. 1

WASHINGTON, May 1, 1933.

SIR: The policy to be pursued by this Government in its relations with the Republic of Cuba must be determined primarily by its rights and obligations as set forth in the first five articles of the treaty between the United States and Cuba signed at Havana May 22, 1903,¹⁰ which articles likewise form a portion of the Cuban Constitution first promulgated on May 20, 1902. These articles are as follows:

"I. That the government of Cuba shall never enter into any treaty or other compact with any foreign power or powers which will impair or tend to impair the independence of Cuba, nor in any manner authorize or permit any foreign power or powers to obtain by colonization or for military or naval purposes or otherwise, lodgement in or control over any portion of said island.

"II. That said government shall not assume or contract any public debt, to pay the interest upon which, and to make reasonable sinking fund provision for the ultimate discharge of which, the ordinary revenues of the island, after defraying the current expenses of government shall be inadequate.

"III. That the government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property, and individual liberty, and for discharging the obligations with respect to Cuba imposed by the treaty of Paris on the United States, now to be assumed and undertaken by the government of Cuba.

"IV. That all Acts of the United States in Cuba during its military occupancy thereof are ratified and validated, and all lawful rights acquired thereunder shall be maintained and protected.

"V. That the government of Cuba will execute, and as far as necessary extend, the plans already devised or other plans to be mutually agreed upon, for the sanitation of the cities of the island, to the end that a recurrence of epidemic and infectious diseases may be prevented thereby assuring protection to the people and commerce of Cuba, as well as to the commerce of the southern ports of the United States and the people residing therein."

At the present moment, the Government of the United States is forced to view with the gravest concern the situation now existing in Cuba. You are familiar with the developments which have taken place since President Machado first assumed office in 1925.

¹⁰ *Foreign Relations*, 1904, p. 243.

While the President at first repeatedly asserted his intention of serving but one constitutional term of four years as President, he nevertheless approved the passage, in the Spring of 1927, of an act by the Cuban House of Representatives, providing, among other things, for the proroguing of his own term for a period of four years.¹¹ It is reported that President Machado, during the course of his visit to Washington, which took place after the passage of this legislation by the Cuban House of Representatives, obtained the tacit approval of the American Government to the general principles embodied in this act.¹² Subsequent to President Machado's return to Cuba, the Congress passed the Constitutional Reform Bill with the provision that the President's term should be prorogued for a period of two years.

Under the terms of the Cuban Constitution, as promulgated in 1902, amendments to the Constitution proposed by the Congress did not become effective until approved by a constituent assembly specifically elected for that purpose. Consequently, after the project for constitutional reform had been enacted by the Cuban Congress, elections were held for delegates to the constituent assembly and these delegates were elected under a revised form of the so-called "Crowder Electoral Code",¹³ the revisions in the code making possible the election of delegates individually selected, in their great majority, by members of the existing House and Senate, and in most instances the Senators and Representatives themselves served as delegates to the constituent assembly. It is obvious that the revision of the Electoral Code made possible at this time the election of delegates favorable to the proroguing of the terms of the President, of the members of the Senate and of the members of the House of Representatives, and that such delegates were by no means elected through the untrammelled vote of the Cuban people themselves.

The constituent assembly so selected convened in the month of April, 1928. Under the terms of the then-existing Constitution, the duties of the constituent assembly were "limited either to approving or rejecting the amendment voted by the co-legislative bodies". Notwithstanding this clear provision and the clear intent thereof, the constituent assembly revised completely several of the provisions of the project submitted by the Cuban Congress. It would seem that there was a reasonable measure of doubt that the constituent assembly acted "ultra vires". The Supreme Court of Cuba has, however, consistently refrained from rendering a decision upon this question.

¹¹ See *Foreign Relations*, 1927, vol. II, pp. 519 ff.

¹² See memorandum by the Chief of the Division of Latin American Affairs, April 23, 1927, *ibid.*, p. 525.

¹³ See *ibid.*, 1919, vol. II, pp. 1 ff.

Among the more important provisions of the amendments made to the former Constitution were the following:

By the terms of Article 66, the Presidential term was extended from four to six years and the President prohibited from serving in that office for two consecutive terms. Whereas the reforms as voted by the Cuban Congress had prorogued for a period of two years the term of office of President Machado, the constituent assembly re-drafted this provision by providing for a call for elections in the year 1928, specifying, however, that the first Presidential term to which the provisions of Article 66 above referred to would be regarded as being applicable, would not commence until May 20, 1929. President Machado was thereby rendered eligible for re-election in the year 1928.

Among the other measures provided by the reforms to the Constitution enacted at this time, the tenure of office of Senators was increased from eight to nine years and the total number of all Senators increased from twenty-four to thirty-six; the term of Representatives in Congress was increased from four to six years and the term of both Senators and Representatives actually in office at the time was extended for a period of two years; the office of Vice-President was abolished, and provision was later made in the so-called Emergency Electoral Law of July 11, 1928, that in the event of a vacancy occurring in the Presidential office, the vacancy should be filled from among the members of the Cabinet, the Secretary of State, because of his ranking position therein, to be the First Substitute, the election of a permanent successor to be held within a period of sixty days thereafter. Furthermore, in general, all elective provincial and municipal authorities were to be retained in office for an additional two-year term.

In the elections held under the Emergency Electoral Law which took place in November, 1928, President Machado was the sole candidate and was re-elected for a term of six years, his present term being due to expire May 20, 1935. Due to the pressure of public opinion as expressed through the increasing political opposition to his Administration and, in part, presumably, for purposes of political strategy, President Machado, in December, 1930, agreed to the restoration by the Cuban Congress of the original Crowder Electoral Code without the inclusion of amendments of significance.¹⁴

There exists, consequently, in Cuba, at the present time, an electoral code which can guarantee fair elections to the Cuban people, provided, of course, that the Cuban Government and the Cuban people themselves desire free and fair elections.

¹⁴ See despatch No. 442, November 24, 1930, from the Ambassador in Cuba, *Foreign Relations*, 1930, vol. II, p. 673.

Opposition to the Administration of President Machado had already gathered force by the Autumn of 1927, when it became apparent that the President was anxious to extend the term of office for which he had been originally elected. The speculative period, however, and the carrying out of the Government's Public Works Program, resulted, for a brief period, in economic improvement in Cuba.

The climax of this period was very nearly coincident with the time when President Machado became a candidate for re-election, and the attention of the Cuban people was consequently diverted from political issues, and opposition to the President and to his Administration was temporarily allayed.

With the beginning of the period of depression and with rapidly increasing economic distress, opposition not only became active again, but gradually increased to a degree of bitterness and of animosity to the President's person hitherto unknown in Cuba. Political opposition has degenerated into a ruthless campaign of violence against the President and against the members of the Administration. Repressive measures enacted by the Machado Administration; the suspension of constitutional guaranties; the declaration of martial law with attendant resort to the use of military tribunals in lieu of civil courts; the imposition of strict censorship; the brutal assassination or imprisonment of the President's political opponents, have failed to curb the campaign of terrorism resorted to by President Machado's opponents.

Not only all of the political leaders of importance, but a great majority of the intellectual leaders of Cuba as well, have been forced to leave the Republic and most of them have taken refuge in the United States. Due to the unwillingness of the student bodies to endure silently the measures of repression undertaken by the Cuban Executive, the University of Havana and the secondary schools throughout the Island have been closed by Governmental Decree for nearly three years, and while some of the students have taken refuge in Europe and in the United States to complete their education, a very large percentage of them are actively engaged in subversive activities, notably through such organizations as the ABC. Many of them have been assassinated by the police authorities and many of them have been imprisoned. It is apparent that under conditions such as these, those groups among the younger generation from whom the leaders of Cuba of tomorrow must spring, are being brought by experience to the conviction that changes in government in Cuba must be effected not by the orderly processes of constitutional government, but by the resort to measures of violence and revolution.

The propaganda of those opposed to the Machado Administration has for many months been very much in evidence in the United States. The American press has given pre-eminence to the Cuban situation.

Leading members of the Congress of the United States have very naturally interested themselves in the domestic concerns of Cuba.

It cannot be denied that the existence of such a state of affairs as that existing in Cuba is necessarily a matter which must rightly give the Government of the United States deep anxiety. Its rights and obligations under its treaty relations with Cuba; the close geographical proximity of Cuba to the United States; its desire to enter into negotiations with the Cuban Government looking toward a reciprocal trade agreement which in its judgment would be of the utmost benefit both to the Cuban people and to the people of the United States and which cannot be undertaken so long as this situation of political unrest in Cuba continues, all jointly force it to the belief that its friendly assistance must be tendered to the Cuban people in their effort to see an adjustment of what are fast becoming intolerable conditions.

Under the terms of Article III of its Treaty of 1903 with Cuba,

“the Government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property, and individual liberty . . .”

The Government of the United States now reiterates the interpretation given to that provision by the Honorable Elihu Root, then Secretary of War, on April 2, 1901:

“The intervention described in the third clause of the Platt Amendment is not synonymous with intermeddling or interference with the affairs of the Cuban Government but the formal action of the Government of the United States, based upon just and substantial grounds, for the preservation of Cuban independence and the maintenance of a government adequate for the protection of life, property, and individual liberty.”¹⁵

Under this interpretation, it will be evident to you that conditions in Cuba, highly unsatisfactory and even alarming as they may be, do not constitute a just basis for the formal action of the Government of the United States looking towards intervention. On the other hand, the Government of the United States cannot, in the interest of its own citizens, and because of its interest in the welfare of the Cuban people, assume that this interpretation of Article 5 of its treaty with Cuba can prevent it from experiencing grave disquiet while it sees a situation developing in the Republic of Cuba which would appear, perhaps, to result at some time either in the remote or in the near future in open rebellion against a Cuban Government, with consequent destruction of human life and property, and with the probability that there might then well be no government existing in

¹⁵ See Report of the Secretary of War dated November 27, 1901, *Annual Reports of the War Department*, for the fiscal year ended June 30, 1901, pp. 7, 48.

Cuba adequate to preserve life, property, and individual liberty. This Government, on the contrary, feels it obligatory upon it to offer its friendly advice for the purpose of correcting and stemming that course of events and the potential dangers resulting therefrom.

It must be clearly understood, however, that any efforts of the Government of the United States exerted in this direction are not to be construed as measures of intervention. They are, on the contrary, measures intended to prevent the necessity of intervention. They are measures to be taken in view of the responsibilities assumed by the United States under its treaty relations with Cuba, as Cuba's nearest friend, and for the purpose of assuring the maintenance of Cuban independence and Cuban sovereignty.

1. You will therefore express to President Machado the belief of the Government of the United States that the measures it is now suggesting to him are to be considered by the Cuban Government solely as the representations of Cuba's closest friend among nations, for the purpose of facilitating an adjustment of the various problems with which the Cuban Government is now confronted, which constitute in themselves, necessarily, a matter of intimate concern to the Government of the United States because of the provisions of the Treaty existing between the two nations.

2. You will point out to President Machado, in the most forcible terms, that in the opinion of your Government, there can be expected no general amelioration of conditions in Cuba until there is a definite cessation of that state of terrorism which has existed for so long a period throughout Cuba, and particularly in Havana. You will explain to him that the continuing reports of the murder of Cubans in all ranks of life by members of the armed forces of the Cuban Government have profoundly stirred public opinion in this country; that public feeling in the United States is in danger of becoming gravely prejudiced against the Cuban Government, with resultant impairment of the high regard which the American people should rightly hold for the people of the neighboring Republic. You should state that this Government makes all due allowance for the need of the Cuban Government to undertake measures of control in view of the nature of the campaign which the opposition factions are waging against it. You will, however, express the earnest hope of this Government that the President will, at the earliest moment, enforce the strictest discipline among the members of the armed forces of Cuba so as to prevent a continuation of such atrocities as those which have so frequently been countenanced in recent months under the provisions of the "Ley de Fuga", and that the Cuban Government will, in so far as may be possible, prevent the incarceration, much more the execution, of political or press offenders.

In concluding your representations upon this matter, you will state that it is the very definite belief of your Government that the essential prerequisite to any basic improvement in Cuba is the speedy cessation both of overt acts against the Government and of extreme measures of repression by the Government.

3. You will express to the President the desire of the United States to offer, in any form deemed most suitable by both Governments, the friendly mediation of the Government of the United States between President Machado and the members of the political factions and other elements opposed to the Cuban Government. The nature of such mediation and the form in which it may be exercised must, necessarily, be left to your discretion. You will, however, regard as your chief objective the negotiation of a definite, detailed, and binding understanding between the present Cuban Government and the responsible leaders of the factions opposed to it, which will lead to a truce in the present dangerous political agitation to continue until such time as national elections can be held in Cuba, and the responsible officials of a new constitutional government can be elected under reasonable guaranties of popular suffrage without fraud, without intimidation, and without violence.

4. Coincident with your discussion with the President of Cuba of the questions above set forth, you should express to President Machado the earnest desire of the Government of the United States to assist the Cuban Government in every feasible manner in the consideration of measures intended to ameliorate the distressing economic situation now existing in the Republic of Cuba. You will state that this Government, as a portion of its general policy of negotiating reciprocal trade agreements with other nations of the world, is particularly desirous of considering the bases of a reciprocal trade agreement between the United States and Cuba, which, in its belief, would redound to the advantage of both nations. You may say that this Government is strongly inclined to the view that a speedy improvement in economic and commercial conditions in Cuba would result in an immediate allaying of popular unrest and of political agitation, and that the Government of the United States hopes that the Cuban Government will be disposed to give the consideration of this problem preferential attention. You may likewise point out that the Government of the United States is favorably disposed to receive any suggestions from the Cuban Government as to any other manner in which the friendly cooperation of this Government might be effectively exercised in assisting the Cuban Government in its desire to bring about general commercial and economic improvement.

In conclusion, you will always bear in mind that the relations between the Government of the United States and the Cuban Gov-

ernment are those existing between sovereign, independent, and equal powers; and that no step should be taken which would tend to render more likely the need of the Government of the United States to resort to that right of formal intervention granted to the United States by the existing treaty between the two nations.

I have [etc.]

CORDELL HULL

123C11/316 : Telegram

The Secretary of State to the Minister in Colombia (Caffery)

WASHINGTON, May 6, 1933—3 p. m.

44. For Caffery from Phillips.¹⁶ The President has in mind appointing you Ambassador to Cuba on the termination of Sumner Welles' period of ambassadorship there, which may be in about 3 months' time. Welles will then return to the State Department and resume his position of Assistant Secretary. Meanwhile, we should like to have you fill the vacancy here of Assistant Secretary. In this way you can become conversant with Cuban affairs and be of general assistance to the Department.

Please let me know whether this arrangement is agreeable to you.

HULL

123C11/317 : Telegram

The Minister in Colombia (Caffery) to the Secretary of State

BOGOTÁ, May 7, 1933—6 p. m.

[Received 9:50 p. m.]

48. Department's 44, May 6, 3 p. m. For Phillips from Caffery. I should be happy to be appointed Ambassador to Cuba on the termination of Sumner Welles' period and in the meantime fill the vacancy of Assistant Secretary of State.¹⁷ Thank you.

CAFFERY

123W451/102 : Telegram

The Chargé in Cuba (Reed) to the Secretary of State

HABANA, May 8, 1933—9 a. m.

[Received 9:55 a. m.]

38. Ambassador Welles arrived yesterday.

REED

¹⁶ William Phillips, Under Secretary of State.

¹⁷ Mr. Caffery entered upon his duties as Assistant Secretary of State, July 12, 1933.

123W451/103 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 11, 1933—11 a. m.

[Received 12:30 p. m.]

39. Presented letter of credence this morning.

WELLES

837.00/3512 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 13, 1933—6 p. m.

[Received May 14—5:35 p. m.]

43. I had yesterday 2-hour conversation with the Secretary of State and this morning a conversation of equal length with the President of the Republic.

At the outset of my conversation with the President I indicated in general terms the policy of the Government of the United States towards Cuba. I stated that my Government reiterated the interpretation of its responsibilities under the Platt Amendment in the sense laid down by Secretary Root in 1901, namely that the right of intervention was not construed as being synonymous with intermeddling in the domestic or political concerns of Cuba. I further stated that my Government believed that the prime requisite to insure the permanent welfare of Cuba was the maintenance of constitutional government and the fortification of the tradition of orderly procedure in constitutional government; and that to secure those ends the Government of Cuba could count on the friendly cooperation of the United States in every appropriate manner.

I stated that my Government had been caused very grave disquiet by the long-continued political agitation which had existed in Cuba and that public opinion in the United States had been very frequently shocked by acts of terrorism committed by the opponents of the administration of President Machado and as deeply shocked by acts of cruelty and oppression on the part of the military authorities of the Cuban Government. I said that it was our desire to offer our unofficial good offices for the purpose of putting an end as soon as possible to this state of political agitation with all of its inherent evils both because of our abiding interest in and sympathy with the people of Cuba as well as because of our well-founded belief that steps toward any permanent basic economic improvement in the Republic of Cuba could not be taken with complete success until political quiet once more existed.

I continued by saying that it was my hope that President Machado would find it possible to carry out a program of conciliation leading towards the holding of absolutely fair and uncontrolled national elections in the autumn of 1934 and that for this reason it seemed to me highly desirable that the Cuban Government adopt, at as early a moment as the President deemed appropriate, certain measures providing for the gradual return to the Cuban people of their constitutional guarantees. I said that to my mind an essential prerequisite to this would be a decree by the President imposing penalties in the future, to be determined by a special tribunal, for any illegal acts committed by military or police, whether of killing by *ley de fuga* procedure, of torture or of unlawful [apparent omission]; the gradual relaxation of censorship and of the prohibition of free speech; and the raising of martial law as soon as possible.

In concluding this summary I said that my Government was disposed to enter into the consideration of the bases for a reciprocal trade agreement with the Cuban Republic and that I was under the very positive impression that not only the eventual benefits to be derived from such agreement but also the turning of the attention of the general public from political agitation to questions of economic interest to every Cuban citizen would have a markedly beneficial psychological effect.

The President was very obviously impressed with the declarations which I made to him. He said that he found himself not only in full accord with the suggestions I had offered but deeply appreciative of the attitude taken by the United States Government. In considerable detail he went into the nature of the political agitation against his administration. He said that the leaders of the Opposition had neither a constructive program to present nor any recommendations to offer other than the overthrow of the constituted Government of Cuba. He said that it was his most earnest desire to take with the utmost rapidity every measure tending towards a return to normal constitutional procedure. In this connection he referred to the fact that military censorship of the press had been lifted 2 days ago and that the very great majority of political offenders had been freed from imprisonment during the past week. He emphasized the fact that not only all of the political leaders who had previously been arrested but the individuals as well who had attempted to assassinate him had been released from prison and were now at liberty either in the United States or in the Republic. He said that not only would he accept but that he welcomed as the only sure held [*help?*] in the crisis through which Cuba was now passing the unofficial good offices of the Government of the United States for the purpose of providing a political truce in Cuba which would make it possible for all parties to go to the next national elections with complete assurance that the candidate desired by the ma-

majority of the Cuban people would be the next President of the Republic. He declared emphatically that not only would he not under any conditions whatsoever be a candidate himself for a future term, and what to my mind was perhaps the most striking of the assurances given me was the definite intimation that in order to assure the Cuban people of all factions that the coming national elections would not be controlled, the President himself would not be averse at an appropriate moment before the electoral period began to resign his office either temporarily for the duration of the electoral period or permanently until the next constitutional term commenced.

I seized the opportunity of discussing in some detail the various plans which had been under consideration in Washington before my own departure providing for an improvement of our commercial relations with Cuba. I stated that at the present time it was impossible to give any definite assurances as to what form these plans would eventually take but that I felt able to say that my Government would be prepared to consider a fixed allotment for Cuban sugars; an increase in the existing preferential [tariff?] covering such allotment; and that it held the belief that under such conditions the anticipated stabilization of the price of sugar in the American market at a fair figure would be of the utmost benefit to the Cuban people as a whole. I was given the positive assurances that were the United States to negotiate on such a basis a reciprocal trade agreement with the Cuban Government, the Cuban Government in turn would grant us a practical monopoly of the Cuban market for American imports, the sole reservation being that in view of the fact that Great Britain was Cuba's chief customer for that portion of sugar exports which did not go to the United States the Cuban Government would desire to concede certain advantages to a limited category of imports from Great Britain. The Secretary of State was particularly emphatic in amplifying this statement by declaring that the Government would be willing to agree to abolish, as regards American imports, those consumption and other taxes which have in so many instances seriously restricted American importations during the past few years.

I hold the very strong belief that the policy to be pursued in Cuba under present conditions should be as follows:

The economic benefits to be derived from a fair commercial agreement between the United States and Cuba and even the negotiations leading towards such an agreement will assist in part in distracting public attention from politics;

By acting through and with the present Cuban Government, which is well aware of the fact that it could not for long remain in power were the support of the United States to be even negatively withdrawn from it, it may be possible to carry out a program of constitutional

and electoral reform which will make it possible for fair national elections to be held in 1934;

If the present acute bitterness of feeling against the President and the members of his Government persists or becomes intensified during the coming year it would in all probability be highly desirable that the present chief executive be replaced at least during the electoral period by some impartial citizen in whom all factions have confidence. I do not feel, however, as a practical question that any attempt should be made to anticipate such a change. President Machado is able to preserve order joined with unquestioned loyalty and discipline of the Cuban Army. If some other individual replaced him the loyalty of the Army would be questionable; the Opposition would be as it is now, divided into factions which have absolutely no common ground other than that of desiring the removal of the President. Under such conditions general chaos might well result during the course of which the first objective on the part of malcontents would be the desire to bring about intervention by the United States through the destruction of American property.

I am hopeful that by a series of concessions which the President may make to public opinion and by the continuance of negotiations for commercial agreement agitation may be kept relatively quiet until such time as the Cuban Congress can make essential amendments to the electoral code and approve the needed reforms to the existing constitution, which would be later voted by a freely elected constituent assembly.

Finally, the negotiation at this time of a reciprocal trade agreement with Cuba along the lines above-indicated, will not only revivify Cuba but will give us practical control of a market we have been steadily losing for the past 10 years not only for our manufactured products but for our agricultural exports as well notably in such categories as wheat, animal fats, meat products, rice and potatoes.

It will be this policy that I shall attempt to carry out unless I am instructed to the contrary.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

837.00/3514 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 13, 1933—4 p. m.

[Received 8:23 p. m.]

44. I was advised this morning by President Machado that you are to have a conference with the Cuban Ambassador in Washington next

Monday to discuss commercial problems of interest to both Governments. Since I understood from my last conversation with you that the discussions you will undertake with the Cuban representative in Washington will envisage only a general survey of economic questions, I should appreciate it, provided you see no objection, if the Cuban Ambassador were informed that, after the conclusion of your conversation with him, I am authorized to enter into a preliminary and tentative consideration of the bases for a reciprocal trade agreement between the United States and Cuba. I would naturally in any conversations held here make no commitments whatever, since in any event under present conditions it would be impossible to do so. For the reasons expressed in my telegram number 43, May 13, 6 p. m., my position will be materially strengthened with the Government here if conversations relating to this matter are undertaken by me coincident with any representations I may make to the Cuban Government on other topics. Furthermore, I feel confident that a preliminary discussion in general terms of our future commercial relations with Cuba will, as those held now, serve a very useful purpose in view of the stated desire of the Cuban Government to offer us any advantages which our Government deems desirable.

WELLES

837.00/3515 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 16, 1933—3 p. m.

[Received 7:30 p. m.]

46. Referring to the Embassy's number 44, May 12 [13], 4 p. m., I intend within the next 2 or 3 days to commence informal conversations with Secretary of State covering possible bases for the future negotiation of a new commercial agreement between the United States and Cuba. I beg to request that you advise me if there is any reason why conversations of this character should not be initiated at the present moment and, should there be no objection, if there are any particular points that you would desire me to emphasize.

Doctor Ferrara has informed me confidentially that while he has not yet approached the President in the matter he desires to head the Cuban delegation to the World Economic Conference.¹⁸ It is his desire to have as fellow delegates: Ambassador Cintas and Señor Manuel Portuondo, the latter specifically as an expert on sugar questions.

WELLES

¹⁸ See vol. I, pp. 452 ff.

837.00/3522 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 22, 1933—3 p. m.

[Received 8:02 p. m.]

53. For the President. The Associated Press publishes a report that you intend during the coming week to make a statement regarding the situation in Cuba. The intimation is given that your statement will bear upon the political situation.

I am endeavoring to persuade Opposition leaders, through means of communication which I have established, to give their cooperation towards an arrangement fair to all concerned. I now am led to believe the cooperation of most of them will be forthcoming. I shall, of course, keep you closely advised as to what progress is being made. Should it later develop that a few of the important leaders of the Opposition remain obdurate, a statement by you, insisting upon cooperation of the leaders of all Cuban factions in the determination of a solution of the Cuban problem for the ultimate benefit of the Cuban people as a whole, would presumably have overwhelming and probably deciding effect. I suggest, consequently, that if you intend issuing such a statement as that reported it would probably be more beneficial later on than at this juncture.

WELLES

837.00 Revolutions/274 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 22, 1933—6 p. m.

[Received 11:50 p. m.]

55. Mr. F. Adair Monroe, Junior, President of the Cuba Company, accompanied by Mr. Schreiber, Manager of the Sugar Central owned by that company at Jatibonico, called on me May 19. They reported that three of their guards who had been in their employ for some 8 years and who served likewise as deputy police under the control of the local police authorities had been seized by a detachment of the Guardia Rural under the personal command of Major Arsenio Ortiz on May 16th merely on suspicion of having aided revolutionary activities and had been summarily shot without due investigation and without any trial.

The Cuba Company has been on particularly friendly terms with the Machado administration and there is consequently no reason to believe that the report made to me has been colored by any opposition on the part of the company's officials to the Cuban Government.

I took up the matter immediately with the Secretary of State. I impressed upon him in the most serious manner that if atrocities of this kind continued, not only would any policy of conciliation in Cuba be utterly impossible but I was very certain as well that public opinion in the United States would not tolerate such a situation any more than it had been willing to countenance a similar situation in the years preceding the Spanish-American War. I stated that this particular occurrence was aggravated by the fact that the individuals murdered were the employees of an American company.

Dr. Ferrara told me that he not only understood my viewpoint but was in absolute accord with me. He said that the only reason that Ortiz had been sent to Santa Clara Province was because of the President's fear that one or two of the chief Cuban officers in command in that region were not loyal to the Cuban Government. He told me that he would urge the President immediately to have a full investigation made and in any event recall Major Ortiz without further delay.

Dr. Ferrara called to see me May 20th. He told me the President had ordered Colonel Delgado to proceed immediately to Santa Clara to make a full investigation and that due punishment would be given to Ortiz or to any other officers responsible for the atrocity should the facts be determined to be as reported to me. He further told me that the President would recall Major Ortiz to Habana not later than May 23.

I shall report by telegraph the result of the official investigation as well as the action which the President may take.

WELLES

837.00/3525 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 25, 1933—noon.

[Received 2:30 p. m.]

58. I have had two conferences with the Secretary of State, the Secretary of the Treasury and the Secretary of Agriculture regarding the concessions which the Cuban Government would be willing to make to the United States in a reciprocal trade agreement provided that the United States Government were able to make the concessions to Cuban sugar discussed in a general way before my departure for Washington. I have found a general disposition to grant to the United States those advantages to our agricultural exports and our principal manufactures which we consider necessary. There is a natural desire to afford protection to legitimate Cuban industries and further the desire as already reported to the Department not to impair

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the advantages now possessed in Cuba by Great Britain for her textiles and certain other categories of imports, the latter of which do not compete materially with American products.

The general theory maintained by the Cuban Government is that of making such concessions to us as will balance whatever advantages we may be willing to concede them.

I shall hold the last of these conferences tomorrow since Dr. Ferrara's departure for London makes it impossible to continue them for the time being. I shall, in full, detail to the Department the results of my three conferences on this topic early next week.

I have emphasized repeatedly to the Cuban Government that these conversations were solely for the purpose of exchanging views and of ascertaining in general what the Cuban Government would be prepared to do for us were the Government of the United States willing and able to enter into a new commercial agreement with Cuba. I have reiterated that we could not under present conditions make any definite proposals and that in consequence we did not ask any positive commitments at this juncture from the Cuban Government.

WELLES

837.00 Revolutions/276 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 25, 1933—4 p. m.

[Received 7:05 p. m.]

60. My No. 55.¹⁹ President Machado has this morning sent word to me through Doctor Ferrara that the official investigation made by Colonel Delgado of the atrocities in Santa Clara Province attributed to Major Arsenio Ortiz has confirmed in detail the report of the facts as communicated by me to the Cuban Government and as reported in my telegram under reference.

A further investigation is now in process in order to verify the report that a 15-year-old boy who was an involuntary eye witness of the murder of the three guards was hanged by Major Ortiz at the spot where the murders took place.

The President requested Doctor Ferrara to assure me positively that if this latter atrocity was confirmed Major Ortiz would be publicly court-martialed; the further statement was made by the President that Major Ortiz would in any event be immediately removed from the Army and that while the precise nature of his punishment had not yet been determined upon, the least punishment that would be meted out to him would be immediate exile from Cuba.

WELLES

¹⁹ May 22, 6 p. m., p. 292.

837.00/3526 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 25, 1933—4 p. m.

[Received 9:40 p. m.]

61. Yesterday I had my second long conference with Dr. Cosme de la Torriente, former Ambassador in Washington, former President of the Assembly of the League of Nations and prominent member of the group of leaders opposing the Machado administration.

I discussed in general terms with Dr. de la Torriente the possibility of a solution of the Cuban political problem. I told him that in my judgment any solution must be based upon the preservation of the structure of constitutional government and upon the utilization of the existing Congress as the means of carrying out such reforms as might be agreed upon in a conciliation program. I told him that I was positively opposed to the proposal publicly announced by the members of the revolutionary junta in New York providing for the installation of a provisional and unconstitutional government in Cuba.

I found Dr. de la Torriente in entire accord with the point of view above-expressed. He declared himself as positively opposed to revolution, equally opposed to American intervention and strongly desirous of American mediation to accomplish the ends set forth in my telegram number 43 of May 13.

He showed me letters he had received yesterday from Mendieta and Mendez Peñate (the former, the most influential leader in the New York junta) stating that they would join with him in supporting a program of solution, fair both to the existing Government and to persevering opposition factions. He likewise assured me that the same support would be given him by Miguel Marí to dispose Gómez and by Carlos Hevia who are likewise members of the New York junta. Dr. de la Torriente further asserted within the past 2 days since the time of my first interview with him he had received assurances from the leaders of the two dissident factions of the Conservative Party that they would support a peaceful adjustment of the present difficulties through the unofficial mediation of the United States Government. I was likewise assured that the members of the Popular Party, the least important of the three Cuban parties, would coincide in any arrangements of the type proposed.

This tentative understanding does not as yet include agreement on the part of General Menocal nor of his followers now refugees in Florida. I have hopes of obtaining their assent to a program of conciliation through Mendez Capote who is now with General Menocal in Florida.

The attitude of the opposition leaders with few exceptions appears to be far more reasonable than the attitude they announced publicly

in New York some weeks ago. I shall continue to discuss bases of adjustment with Dr. de la Torriente until all essential details are agreed upon in principle and until the latter has received the written assent of the leaders mentioned to these bases. I shall then initiate discussions of these bases with the President.

It is obvious to my mind that no accommodations or concessions, financial or economic, should be made to the Cuban Government until a positive understanding is had as to the course the President will be willing to pursue with regard to the solution above proposed.

I beg to request that this telegram be sent to the President for his information.

WELLES

837.00/3527 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 29, 1933—5 p. m.

[Received 8:46 p. m.]

65. Dr. Ferrara leaves today for London as Chairman of the Cuban Delegation to the World Economic Conference. During his absence the Secretary of State ad interim will be General Alberto Herrera until recently Chief of the General Staff of the Cuban Army and last week appointed Secretary of War and Marine in President Machado's Cabinet.

President Machado at present favors General Herrera as the candidate of the Liberal Party for the Presidency in the next national elections. Dr. Ferrara has assured me that he himself will return to resume the Secretaryship of State not later than the first week in July and that the President has no intention of appointing General Herrera to replace him permanently in that office.

WELLES

837.00/3528 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 29, 1933—5 p. m.

[Received May 30—12:27 a. m.]

66. My telegram No. 61.²⁰ On May 27 the *Diario de la Marina* published an officially inspired interview with President Machado. Among the significant statements made by the President were the following:

"A little generosity and good faith on the part of my opponents would be sufficient to enable Cuba to recover moral peace.

²⁰ May 25, 4 p. m., p. 295.

I wish my political opponents would be willing like good Cubans to discuss without prejudice the problems at issue with me around a table. If they convince me I am wrong they would save themselves from the hardships of exile and they would save the country the effects of the prolonged agitation from which it is suffering: I would go to my home with my conscience clear of all blame".

The interview contains no definite commitments on the part of the President but the intimation that the President is willing to reach a compromise by negotiation is made emphatically plain.

In a conference with Ferrara yesterday afternoon I expressed to him my gratification at the initiative taken by the President. I remarked that it might well be considered as a fair approach towards a solution of the political problem. Dr. Ferrara said that that was in fact the President's desire. I was likewise assured that the President would welcome my mediation.

I had immediately afterwards a conference with Dr. de la Torriente. The latter told me that since my last interview with him he had received additional assurances from important opposition leaders that they would support him in negotiations through me providing for an adjustment of the political situation through compromise. He further stated that he had received positive assurances from leaders of the two secret societies known as the A B C and the O C R R²¹ that these organizations would refrain from further violence in the hope that a peaceful settlement with the Government could be reached. Dr. de la Torriente has requested General Menocal's brother to proceed to Miami to endeavor to persuade General Menocal to give his formal consent to the negotiations which it is desired to initiate. Dr. de la Torriente hopes by the end of the present week to have received authorization from the great majority of the political leaders and the non-political Opposition groups to represent them in this effort at mediation.

The principal danger in the present situation lies in the fact that while President Machado is now inclined to follow a policy of conciliation which has been made evident by his removal of Major Ortiz from military command, by the continuing release of political prisoners and by the gradual relaxation of police and censorship regulations, and while the principal elements of the Opposition, both political leaders and secret societies, are making, I believe, a sincere effort to prevent for the time being any resort to open violence and terrorism, the directors of the Opposition activities are very far from possessing a complete control over all the organizations in the Opposition. Any return to violence on the part of a dissident group will bring about prompt action necessary by the Government and should this then provoke counter-reprisals, negotiations might break down at any time.

²¹ Organización Celular Radical Revolucionaria.

Furthermore, while the political leaders are secretly only too anxious to obtain our mediation they are at the moment jockeying for political advantage in the next national elections and in some instances this advantage will be sought through an appeal to the more radical element of the population by public announcements that they will not countenance diplomatic intervention in any guise by the United States.

Since I have now received assurances both from the President and from a leading representative of the Opposition in the person of Dr. de la Torriente that my mediation is desired I shall discuss the general bases of an agreement as of my own initiative both with the President and with Dr. de la Torriente as soon as I am confident that the latter is in fact backed by a sufficient number of Opposition groups to make these discussions of positive value.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

837.00/3530 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 2, 1933—noon.

[Received 2:45 p. m.]

68. A major problem in the present situation in Cuba is the fact that the university is closed owing to the unwillingness of both professors and students to permit any continuation of university activities under present conditions.

In discussing this condition yesterday with the President we came to the conclusion that the attempt should be made to change the institution from a government-controlled university to an independent organization operating under the control of a self-perpetuating board of trustees entirely removed from governmental influence, the Government merely contributing in the annual budget the amount necessary to make possible the carrying on of the university work.

The President advised me that he was very anxious to obtain the services of some competent American authority who could come to Habana to study the situation and draw up for the benefit of the Government a charter comprising the essential points above-indicated.

I beg to request that the Department endeavor to obtain the services of an American expert along these lines. I have reason to believe that the Government would not only be willing to enact immediately whatever legislation were to be recommended by him but also that

this particular solution would eliminate to a great extent the unrest which now exists to such an extreme degree among the student groups in Cuba.

WELLES

837.00/3531 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 2, 1933—noon.

[Received 8:45 p. m.]

69. I had a long interview with Machado in this matter yesterday afternoon.

I told the President that the time had now come when I felt it possible for me to offer my friendly and unofficial mediation between the political groups supporting his administration and the political groups and independent factions comprising the Opposition. I said that this offer was conditional on my services being welcomed by him and by the majority of the Opposition leaders. ✓

The President assured me that not only were my services in this capacity welcome to him but that he felt confident that in no other manner could any adjustment of the political problem be brought about. ✓

I told the President that in my judgment there was only one satisfactory manner of solving the present political situation and that was through compromise on the part of all concerned. I felt that such compromise must be worked out in accordance with the structure of the existing constitution and through the existing Congress. I said that the solution proposed by the Opposition which called for the immediate resignation of the President and his substitution by an impartial Secretary of State was not satisfactory to me; that if this were done under the present constitution, national elections would have to be called within a period of 60 days to elect a successor to the President to fill out the latter's unexpired term; that under present conditions only one party was organized and that was the President's own, the Liberal Party, and the result would necessarily be that any candidate of that Party would be elected and so far as the Opposition was concerned the situation would remain exactly the same as at present save for the fact that there undoubtedly would be so much unrest and agitation in the country that it is doubtful whether the same control could be exercised by the next executive as was now exercised by the President himself.

I said that to my own mind the proper solution was an immediate reform of the electoral code based upon the recommendations of the

electoral expert whom we would obtain for the Government; that such reform must envisage complete liberty for reorganization immediately of the existing political parties and for the organization as political entities of modulate groups or factions so that public opinion could make itself felt in every proper manner in the next national election and need not attempt to express itself solely through the existing political parties which are under the complete domination of old-time political leaders. As a subsequent step I proposed the reform of the constitution to comprise the election of a Vice-President who must be an individual of outstanding reputation and regarded by all important factions or groups as absolutely impartial; the limitation of the term of the next President to a term of 5 years with no immediate reelection; a decrease in the existing number of Congressmen and a shortening of the terms of such Senators and Congressmen as have had extended the terms for which they were originally elected. All of these steps could be taken under the present constitution within 6 months.

The President agreed with these suggestions. He then told me of his own initiative that he would be willing as a patriotic gesture to retire from the Presidency after the election of a Vice-President who possessed the qualifications above indicated as he stated he would have been willing to do at any time these past 3 years if there had been a Vice-President.

Should this program be carried out it would be possible for the President to retire in favor of the new Vice-President at any time after the selection of the latter. I did not indicate in my conversation with the President the time when I thought such retirement on his part would be desirable but limited myself to saying that I did feel that it was essential that the Vice-President should be in control of the Government during the next national electoral period. To this the President agreed.

In concluding my conversation with the President I told him that I did not feel that any one phase of the existing Cuban problem could be dealt with separately but I thought on the contrary that the political, the economic and the financial aspects of the situation should be dealt with as parts of a whole. To this view the President gave his complete assent.

I believe that a solution along the lines above proposed is the only proper solution. It would safeguard the Government of the United States from the obligation to undertake any direct official intervention in Cuban affairs. It avoids a bad precedent for Cuba in that no provisional nor unconstitutional form of government is set up. Finally it provides a hope for the future in the reforms to be made both in the electoral code and in the constitution.

I shall today continue my conversations with prominent members of the Opposition and I am hopeful that during the coming week I may receive more ample and definite assurances of their support in these negotiations than I have as yet secured.

In order to maintain his control of the situation and in order to refrain from appearing to concede to the Opposition any right to demand his resignation, the President will continue until a definite agreement has been reached in all public statements to insist upon his determination to remain in office throughout his term. I am in entire accord with his belief that this attitude on his part is desirable under present conditions.

I beg to request that a copy of the above be sent to the President for his information.

WELLES

837.0131/48 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 6, 1933—11 a. m.

[Received 2:10 p. m.]

70. President Machado requests me to extend to Professor McBain his official invitation to come to Cuba to formulate recommendations for amendments to the electoral code.²²

The President likewise invites Professor McBain to undertake for the Cuban Government the drafting of a charter for an independent university and extends his invitation as well to any expert assistant such as the member of the faculty of the Columbia University suggested by Professor McBain whom Professor McBain may indicate.

President Machado has likewise requested me to ascertain the remuneration desired by Professor McBain and his assistant. I suggest that if it is possible for Professor McBain to accept the position under such conditions he should not ask for remuneration in excess of \$230 a month which is the amount now being paid to the members of the Cabinet. He should, of course, request in addition to such compensation all travelling and subsistence expenses. The remuneration of his assistant should be proportionate. The President will be willing to pay any remuneration desired by Professor McBain but should the salary given him be in excess of that of the members of the Cuban Cabinet it would unquestionably give rise to considerable popular opposition which it is desirable to avoid at this time.

²² Howard Lee McBain, Dean of Graduate Faculties, Columbia University, arrived in Habana June 30.

I beg to request that I be advised of the approximate date of Professor McBain's arrival. The latter should cable his formal acceptance of the invitation directly to President Machado.

WELLES

837.00/3537 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 6, 1933—1 p. m.

[Received 9:30 p. m.]

72. My No. 68 [69], June 2, noon. I had a further interview with the President last night.

I told the President quite frankly that I felt it was a mistaken policy on his part to reiterate in public statements his determination not to leave the Presidency until 1935 and particularly to allege in such statements that the Opposition is inconsiderable and that an overwhelming majority of the Cuban people support him and his followers. I remarked that while I was entirely in accord as I had previously stated to him with belief that he should not at the present time give any indication that he would consider retiring from the Presidency before the expiration of his term of office inasmuch as such indication would weaken his control over the Congress and over the Army yet I did not feel that it was in accord with his determination to pursue a conciliatory policy for him to continue to provoke by intemperate statements the hostility of the Opposition factions. I told him that after his last public interview it had caused me the greatest personal effort to prevent certain of the Opposition factions from a further resort to terrorism and violence and that I had no confidence whatever that I could prevent a recurrence of open hostilities if he persisted in such provocation.

I stated that three of his foremost political opponents, the directors of the student and professorial groups and the directors of the A B C organization, now supported my mediation and that if we were to have any useful results therefrom it was, in my judgment, essential for the President not only to determine, as he has, upon a policy of conciliation but also to make known to the public that such is his intent.

I suggested therefore, that he advise the Cuban people within the next few days that he had reached a decision on the following three points:

1. That he considered the basis of an adjustment of the political situation could be reached through a reform of the existing constitution which reform should be taken with a minimum of delay and

in the drafting of which all shades of public opinion should have full representation in order that the new constitution should favor no individual and no political party but should be of benefit both immediate as well as future to the Cuban people as a whole.

2. That in his opinion the suppression of the Vice-Presidency by the last constitution had been a fundamental error and that the Vice-Presidency should be restored not only for the constitutional term commencing in 1935 but through a transitory provision in the new constitution for the remainder of the existing Presidential term as well.

3. That in his judgment, in view of the present political situation, the individual to hold the office of Vice-President during the remainder of the present Presidential term should be a citizen of outstanding reputation who had not taken an active part in political strife and who should be recognized as impartial by all groups and by all parties.

The President told me that he would comply with my suggestion and that he would make such public declaration on Thursday of this week. He further stated that before making such public statement he would submit a draft of it to me for any amendment that I might desire to suggest.

I further requested the President now to relax the censorship on the representative newspapers of the Republic in such a manner as to permit reasoned declarations to be made by members of the Opposition. I said that I was anxious that Doctor de la Torriente, for example, be given full liberty to make statements of this character through the press. I told him that Dr. de la Torriente had already prepared a statement urging the acceptance of mediation on the Government of the United States in order that an adjustment of the political situation here might be found and that I felt the publication of such a statement would be highly useful at this juncture. The President gave orders in my presence that this be done. I believe that with the publication of the President's declaration above referred to there will be a very distinct change for the better in public sentiment here. The revulsion caused by the President's last public statement was extremely violent and during the whole day of last Saturday I was very fearful that the situation could not be controlled. Both former Chief Justice Gutierrez Veneos and Doctor de la Torriente, as well as the leaders of the student and of the so-called intellectual groups, have, however, been extremely helpful and it was due in great part to their cooperation that the situation improved.

Notwithstanding the statements made yesterday by Doctor de la Torriente I am positively advised that Mendieta, Mendez Peñate, and Gómez will join in the mediation negotiations. Menocal, however, is still recalcitrant and insists that the only solution he will accept is one to be obtained through revolution. In this connection I beg to inquire

whether the Secretary before his departure from Washington requested, as I had asked, that the Department of Justice take immediate steps to prevent the shipment of arms and ammunition from Florida to Cuba as well as the sending of any expeditionary forces from there. It is imperative, as I indicated in my personal letter to the Secretary of May 20th,²³ that local authorities in Florida be prevented from assisting General Menocal and his followers in Miami to violate the neutrality laws of the United States and by so doing jeopardize my present hope of succeeding in finding a peaceful and constitutional solution for the Cuban problem.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

611.3731/419 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 8, 1933—noon.

[Received 1:45 p. m.]

74. Referring to our telephone conversation yesterday the newspapers here this morning announce that the President has positively abandoned his intention of requesting authorization of Congress in this session to undertake the negotiation of reciprocal trade agreements in the form originally proposed.

It is highly desirable that I be instructed to announce at the first possible moment that I am authorized to undertake the negotiation of a revision of the existing commercial convention between Cuba and the United States²⁴ or else that the Department announce that such negotiations will be undertaken by the Department with the Cuban Embassy at Washington.

If no announcement is made and the impression is given that there is no hope of economic improvement in Cuba through a revision of the commercial convention until some time in the indefinite future, the reaction here will be extremely prejudicial. If the negotiation of the revised convention is undertaken without delay not only will the psychological effect be good but the new convention could be presented for ratification to our Senate in the next regular session with the probability that ratification would be obtained and consequently that shortly thereafter the resulting change in conditions would operate not only in benefit of Cuba but also of our own exporters.

WELLES

²³ Not found in Department files.

²⁴ Convention concluded December 11, 1902, *Foreign Relations*, 1903, p. 375.

837.00/3539 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 8, 1933—2 p. m.

[Received 5:40 p. m.]

75. My telegram No. 72, June 6, 1 p. m. In accordance with his promise to me, the President last night gave to the press an official declaration covering precisely the points I had suggested. I was afforded the opportunity of revising the text before issuance in order to avoid any possible confusion as to the President's intent.

In the first section of this declaration the President urged the creation of the position of Vice-President at the earliest possible moment through a transitory reform of the constitution. He declared his determination that the individual to hold this office should be "of high character and impartial" unconnected with political activity and should not be a candidate for any office in the general elections of 1934. In the second section the President stated that it was his determination that in the task of constitutional reform every political party and every independent faction should be given free and ample opportunity to cooperate. In the third and concluding section [of] his declaration the President stated that as soon as Congress has passed the new version of the electoral code which will be drafted by the Supreme Electoral Tribunal upon the recommendations of Professor McBain full and absolute guarantees will be offered so that in accordance with the provisions of that code the existing political parties can reorganize freely and so that "the new political forces representing groups of voters who are not members of the existing political parties" can organize. In this manner the political parties and independent groups will be given the opportunity to present candidates not only in the national elections of 1934 but also in the election of delegates to the Constitutional Convention which will have to approve the reforms of the constitution which are now to be undertaken by the Congress.

A full text of President Machado's declaration will be sent by mail.

The reaction has been unexpectedly favorable both in the ABC and in the student and intellectual organizations.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

611.3731/419 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, June 8, 1933—5 p. m.

41. You are instructed to proceed with negotiations for the revision of the commercial treaty with Cuba in connection with the Administration's policy of obtaining reciprocal trade agreements with other countries. The treaty will be submitted to the Senate at the next session of Congress. Public announcement that these instructions have been sent you will be made by the Department probably tomorrow.

PHILLIPS

837.00/3542 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 10, 1933—noon.

[Received 4:10 p. m.]

79. My 75, June 8, 2 p. m. Doctor de la Torriente's statement was published in the local press this morning as previously agreed. The major portion of the statement is devoted to a vigorous but nevertheless constructive and temperate attack on the policies of the Machado administration. In the concluding paragraphs he refers to the recent invitation of President Machado to his opponents to discuss the solution of the existing political problem with him as "good Cubans" and reiterates his own opinion as previously expressed that a satisfactory solution can only come through a discussion by representatives of the Government and of the factions comprising the opposition to the Government—such representatives to be necessarily individuals who are free from passion and who have not undergone personal loss or suffering from the events of the past few years. In conclusion Doctor de la Torriente states that in his judgment, such a discussion, even with the restrictions indicated, would be useless unless both sides previously agree upon "an individual in whom both sides have confidence who would be willing through his mediation and advice to bring them to a definite agreement".

The opinion thus expressed by Doctor de la Torriente in which he expresses his desire that my mediation be accepted by all the opposition factions, as it has already been accepted by the Government, will be supported in additional statements to be made in the press today and tomorrow by outstanding citizens of the opposition factions including Doctor Varona who has very great influence among the elements composing the so-called intellectual groups.

Doctor de la Torriente has now succeeded in uniting here a group comprising outstanding members of every one of the opposition groups. They are almost all in accord with the program determined upon and are necessarily far better aware of the favorable reaction created opposition sectors by the events of the past few days than are the other representatives on these same groups composing the junta in New York. Yesterday they agreed to send to the United States today Doctor Albanes who is a leading figure in the opposition section of the Conservative Party in Congress; and Doctor Roberto Mendez Peñate brother of Colonel Mendez Peñate of the New York junta. These two representatives will first visit General Menocal in Miami and then proceed to New York to confer with the members of the junta there. They will insist through instructions given to them by the newly-formed group in Havana that the leaders in the United States either agree to come to Cuba and cooperate or else remain in the United States and enter into a commitment to refrain from urging or from directing any further acts of violence in Cuba. They will inform General Menocal that there is no popular support in Cuba today for his revolutionary program. *going to try peace*

I am hopeful owing to the importance of these emissaries and owing to the definite decision to cooperate reached by the Habana group that the New York junta will soon disintegrate. With regard to General Menocal I strongly recommend that at an early date some proper representative of our Department of Justice see him in Miami and advise him that because of the consideration which the Government of the United States wishes to show him as a former President of Cuba and as a friend of the United States he should realize that he and his friends are under strict surveillance and it is hoped that he will not lend himself to any infraction of the neutrality laws of the United States. A warning couched in these terms would have a very decisive effect upon General Menocal under present conditions.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

837.00/3546 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 14, 1933—2 p. m.

[Received 5:48 p. m.]

82. My 75 and 79. General Menocal's son-in-law Doctor Sardinias and the General's confidential adviser Dr. Martinez Zaldo leave this afternoon for Miami to interview Menocal and to insist on it that he abandon any revolutionary activity and agree to appoint a repre-

sentative to cooperate in the plan I had indicated. They advise me that from information they received yesterday they understand Menocal will agree to their representations.

Miguel Mariano Gómez of the New York junta has expressed to me today through a friend who received a message from him this morning that he desires to return to Cuba likewise for the purpose of cooperating.

The ABC directors have advised me that positive assurances will be given me by the association tomorrow welcoming my unofficial mediation and committing the organization to refrain from any terrorist activity pending favorable solution. The attitude taken by this organization will be followed by the other two principal secret societies.

The leaders of the Opposition sectors here are becoming increasingly indignant at the public declarations which are being made in New York by members of the junta who at the same time are sending them confidential messages to the effect that my mediation is the only method by which a satisfactory adjustment can be obtained. I have reason to believe that if by the end of this week the New York junta does not refrain from publishing statements of this character the newly-formed junta in Habana will declare itself in control of negotiations on behalf of the Opposition factions. I intend to wait for a few more days in the hope that the New York junta will agree to cooperate and to come to Habana for this purpose. I am not willing however to wait longer than Monday of next week before commencing with representatives of the Government and with the duly selected representatives of the Opposition here the consideration of the essential reforms to the constitution in order that we can commence the program indicated in President Machado's last public statement.

WELLES

837.00/3549 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 16, 1933—2 p. m.

[Received 6:08 p. m.]

85. My telegram No. 82, June 14, 2 p. m. I was handed yesterday a written memorandum by the directors of the A B C accepting my friendly mediation between the Government and the opposition factions. Their acceptance was based upon the understanding that my mediation had no aspect of intervention but was to be interpreted as the friendly effort of the representative of a friendly government to reestablish peace in the Republic and that such mediation would

be carried out loyally and "with a view to the ideals and real interest of the Cuban people". The additional statement was made that while my mediation was accepted unconditionally the association would feel itself free to withdraw should the negotiations be unduly protracted, should they take a form contrary to the interests and ideals of the Cuban people or should they have to be undertaken "under oppressive circumstances which would plainly demonstrate bad faith on the part of the Cuban Government".

Finally the A B C from the date upon which this memorandum was handed to me "enters into a formal obligation to refrain from all forms of agitation directed against the constituted authorities in Cuba".

I have given to the press by agreement with President Machado the essential points contained in this memorandum. I have felt it desirable to regard as strictly confidential that portion of the memorandum which is couched in terms which are offensive to the members of the Government.

The immediate reaction to the announcement that the A B C has accepted my mediation has been as was to be expected highly favorable. The representative of the A B C in the New York junta has been ordered to withdraw from the same and it is the expectation on the part of all the representatives of the other opposition factions that the initiative taken by the A B C will at once create a break-up of the New York junta and insure the acceptance of my mediation by all of the other factions involved.

I have as yet no direct information from General Menocal.

WELLES

837.00/3550 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 16, 1933—6 p. m.

[Received 9:05 p. m.]

86. I have now received the formal acceptance of my mediation by the directors of the OCCR and of the organization composed of the high-school professors. The university professors have sent me word that a similar reply is to be expected tomorrow from the university group.

I have had a conference with Doctor Albanes, Doctor Martinez Zaldo and Doctor Sardinias who returned yesterday evening from Miami where they interviewed General Menocal who advises that while he is now entirely willing to accept my mediation he is unable to send me official word to that effect owing to his commitment to the New York

junta until the junta has either officially accepted my mediation or else has been disbanded.

In replies to inquiries I have stated that I was unwilling to make any direct representations to the New York junta or to receive any representative from the junta. It appears to me desirable that the junta disband at the earliest possible moment and that whatever discussions take place prior to mediation should take place in Habana directly between the various opposition factions and myself. I have every reason to believe that this solution is now only a question of days.

WELLES

837.00/3555a. Telegram

The Acting Secretary of State to President Roosevelt, at Sea

WASHINGTON, June 20, 1933—5 p. m.

4. Ambassador Welles reports the probability that he will receive in the very near future the agreement of all the various opposition factions to accept his mediation in their controversy with the Cuban Government. You may recall that President Machado has already made known his willingness to confer with the opposition leaders in an effort to work out a satisfactory solution of the present political difficulties. Welles is of the opinion that the great mass of the Cuban people desire that these discussions, which should begin shortly, produce a settlement.

Welles believes that a message from you, delivered propitiously, at the outset of these discussions, would be of the utmost value for the success of the negotiations, and would have a most helpful effect on public opinion. I have drafted the following as a suggestion for such a message for Welles:

"It is very heartening and the source of much satisfaction to me to know that the Cuban people now believe that a peaceful discussion of their country's problems is the most satisfactory means of determining their country's destinies, and that the best way of reconciling their political difficulties is to be found in the peaceable and orderly process of frank but constructive discussions. I wish the Cuban people every success in these discussions for I am convinced that the restoration of political peace is a necessary and essential preliminary step on the way to Cuba's economical recovery. The representatives of all factions may rest assured that the moral support of the American people will be behind these attempts at the peaceable adjustment of Cuban problems through the orderly procedure of Constitutional Government."

PHILLIPS

837.00/3556 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, June 21, 1933—5 p. m.

49. Your personal letter June 17.²⁵ President authorizes following message:

"It is very heartening and the source of much satisfaction to me to know that the Cuban people now believe that a peaceful discussion of their country's problem is the most satisfactory means of determining their country's destinies, and that the best way of reconciling their political difficulties is to be found in the peaceable and orderly process of frank but constructive discussions. I wish the Cuban people every success in these discussions for I am convinced that the restoration of political peace is a necessary and essential preliminary step on the way to Cuba's economic recovery. The representatives of all factions may rest assured that the moral support of the American people will be behind these attempts at the peaceable adjustment of Cuban problems through the orderly procedure of Constitutional Government."

He adds however, "it should of course be made clear that request for any assistance from Welles originates from Cuban Government and people and is not suggested in first instance by Washington."

PHILLIPS

837.00/3555 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 21, 1933—5 p. m.

[Received 9 p. m.]

90. My telegram No. 86, June 16, 6 p. m. I was handed this afternoon by the duly accredited delegates of the University their formal acceptance of my tender of good offices. The memorandum contains the following three points as those upon which the acceptance of the University is based.

"(1) Because the tender of good offices as a procedure recognized in international law does not imply any infringement whatever of the sovereignty or of the independence of Cuba and because from the moment in which these negotiations do not follow the course indicated to that end which is shown below, all of those who had accepted the offer would be at liberty to withdraw from the negotiations.

(2) Because this tender of good offices has been made by the Ambassador of a government which at the present time is carrying out an anti-imperialistic policy based upon its desire of furthering more

²⁵ Not found in Department files. See telegram to President Roosevelt, June 20, 5 p. m., *supra*.

cordial relations between the nations of America upon a foundation of absolute respect for the rights of all and, furthermore, because of the outstanding qualities of the person of the mediator.

(3) Because the professors hold the firm conviction, and that has been their basic motive in accepting the offer, that those negotiations will lead in a short space of time and effort to the solution of our problems making an end to present conditions in Cuba and reestablishing the rule of law which is today unknown and because through these negotiations there can be obtained the realization of the most earnest desires of the Cuban people. The professors desire likewise to emphasize that throughout the course of their deliberations and at the moment of reaching this decision they have not forgotten for a single moment the students of our University who form an essential part of the same and who have acted in so virile, self-sacrificing and generous a fashion that it could never be forgotten by any of the professors who are obligated both morally and as citizens to remember always their sacrifice and their noble idealism and above all the martyrdom of those who have fallen in a heroic struggle for right and justice".

The formal acceptance on the part of the University was adopted unanimously and notwithstanding the protest of the three professors who have formed part of the revolutionary junta in New York. The influence of this decision on the part of the University will be very great because the University carries far greater weight with public opinion in Cuba than can be realized outside of the Republic.

Miguel Mariano, Gómez's representative, will visit me tomorrow morning to advise me of his acceptance of my offer on behalf of his political party.

In order to avoid any misapprehension by the American press as to the nature of the offer which I have made both to the Government and to representatives of the opposition factions I wish to emphasize that I have repeatedly stated to all elements that this offer has been limited to my "tender of good offices" with the hope that its acceptance might serve to bring about conversations in Cuba between representatives of the Government and representatives of the opposition factions in order that the Cuban people themselves might solve their domestic political problems through a program fair and satisfactory to all concerned. I have furthermore repeatedly stated that this offer not only involved no intervention on our part in Cuban domestic affairs but was made on the contrary for the specific purpose of avoiding the creation of a situation which might force the Government of the United States to consider its responsibilities and obligations under the permanent treaty. Finally I have stated that any solution of the Cuban political problem which might be freely agreed upon as the result of the tender of my good offices by representatives of all factions of Cuban public opinion and which provided for the

maintenance of the forms of constitutional government must be a solution which would be favorably regarded by the Government of the United States.

The terms "arbitration", "mediation" and "good offices" are used here almost interchangeably and without any very clear realization of the distinction between these respective words. I have consistently made it plain that my offer was merely a friendly demonstration of the desire of the President of the United States to further a pacific and constitutional settlement of the policy of chaos which has continued with such tragic consequences during the past 3 years and could necessarily therefore not imply in any sense the incurring of any contractual obligation on the part of the United States.

I have obtained the publication recently of certain leading articles and editorials which make the nature of my offer very clear and I think that public opinion in Cuba now realizes the precise nature of the step I have taken. It would be helpful however if the American press also made these facts as above-indicated entirely plain.

WELLES

837.00/3557 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 22, 1933—4 p. m.

[Received 9:05 p. m.]

91. My telegram No. 90, June 21, 5 p. m. I had this morning my first interview with the President in 2 weeks. General Machado has been seriously ill and is still unable to transact official business.

I advised the President in detailed fashion of the conversations I had had with representatives of the opposition factions and of my opinion that within a few days all of the important elements in the opposition with the possible exception of the Menocal group would have accepted my tender of good offices. The President elaborated at great length upon his desire to meet the opposition half way although he consistently maintained that no confidence whatever was to be placed in any promises which might be forthcoming from General Menocal and that the student organizations would undoubtedly promote disturbances during the time that conversations were continuing here. ✓

The President informed me that he would select immediately three delegates to represent the Government in the mediation negotiations. I expressed my earnest hope that the individuals to be selected by him would be of conciliatory character and it is my present impression that the delegates whom the President will select will be Barreras, the

President of the Senate; Averhoff, the Secretary of the Treasury; and Herrera, the Acting Secretary of State.

The President informed me that he himself has dictated the outlines of the editorial appearing yesterday in the *Heraldo de Cuba*, the Government paper, which was entitled "The Good Offices of Ambassador Welles". This editorial called attention to the fact that the President himself had taken the initiative in the conciliation policy and that the Government of General Machado strongly supported the utilization of my good offices "because the Ambassador does not prejudice our Sovereignty; does not affect in the slightest degree our rights as an independent people; and because he is carrying out the points of the good neighbor of President Roosevelt." The editorial continues by declaring that the utilization of my good offices will make it possible for the Cuban people "to reach an agreement through serene, reasonable and thoughtful discussion, the only manner in which law, justice and respect for individual rights can prevail, even in the most bloody conflicts, and through which men who do not permit themselves to be blinded by the dictates of hate nor the savage impulse of barbarism can make themselves heard".

) The editorial concludes with the statement that the "tender of the good offices of the Ambassador is the offer of a loyal friend in a destructive and tragic family quarrel, extended with the hope that it may be solved through the channels of civic action and of civilization. No good Cuban should therefore withhold from him his sympathy, create difficulties in his task, nor close his heart beforehand to the sentiments of gratitude which so lofty a policy should necessarily make grow in every worthy soul, whether this effort meets with success or not".

The President desires me to express to the Department that this editorial is the expression of his own attitude with regard to the utilization of the good offices which I extended.

WELLES

837.00/3559 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 23, 1933—noon.

[Received 1:30 p. m.]

94. My 91, June 22, 4 p. m. I am informed that within the next few days certain of the opposition factions will publish in the United States declarations of the reasons which have caused them to accept my tender of good offices. Probably a good many of these declarations which will be intended to appeal to the most radical of the members of the opposition, will either misconstrue or exaggerate the essential character of my services. It will be helpful if the Depart-

ment would refuse to issue any opinion regarding such declarations and merely limit itself to stating that the official interpretation given by the Cuban Government to my tender of good offices is clearly defined in the editorial in the Government organ *Heraldo de Cuba* of June 22 of which portions were quoted in my telegram under reference and full copy and translation of which are being sent to the Department today by air mail.

WELLES

837.00/3563 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 26, 1933—4 p. m.

[Received 7:15 p. m.]

97. I have been confidentially advised that the Council of the University Student Group is planning to send a delegation to visit me to inform me that the group wishes to accept my good offices provided that representatives of two Latin American Republics join with me in the mediation proceedings. Should this develop I shall state that I should be extremely glad to have representatives of two Latin American Republics join with me in the effort to promote a peaceful solution of Cuba's political problem but that of course it must be understood that the initiative in this regard cannot come from me; that it must on the contrary be a suggestion acceptable both to the Government and to all of the other factions in the opposition who have accepted my good offices and furthermore that the Latin American Governments selected must likewise express their willingness to have their representatives act in such capacity.

I see no theoretical objections to the proposal. While it is possible that the need for the United States to consider its responsibilities and obligations under the permanent treaty may be contingent on the success or failure of these present negotiations such a decision must necessarily rest on the United States Government itself. In other words should the present efforts at mediation break down and a revolutionary condition obtain in Cuba to such a degree as to make it necessary for the United States to intervene, such decision cannot be influenced by the cooperation at the present juncture with me of the representatives of other American Republics. The objections that I foresee are entirely practical in their nature. Many of the opposition factions would be unwilling to agree to the proposal to be made by the University Student Council because of their realization that other Latin American Governments have no influence whatever with President Machado while he, on the contrary, would only be willing to agree to the tender of good offices by the representatives of Latin

American Governments such as those of Venezuela or the Dominican Republic which are dictatorial in their nature like his own. Consequently I believe that the possibility of the suggestion being adopted is remote but I think it is wiser for me to take the position that I would welcome such cooperation should it be agreeable to all concerned.

WELLES

837.00/3566 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 30, 1933—4 p. m.

[Received 11:02 p. m.]

101. The President has appointed today as his personal representatives in the mediation proceedings General Herrera, Acting Secretary of State, Dr. Averhoff, Secretary of the Treasury, and Dr. Ruiz Mesa, former Secretary of Justice and now a member of the House of Representatives.

The opposition factions which have accepted my tender of good offices have today appointed the following delegates: Dr. Cosme de la Torriente for the Unión Nacionalista; Dr. Martinez Saenz for the A B C; Dr. Wilfredo Albanes, representative from Oriente for the Conservative opposition party; Dr. Santos Jiménez for the Liberal opposition party headed by Dr. Miguel Mariano Gómez; Dr. Dorta Duque for the University; Dr. Aragon for the professors of the normal and high schools; Dr. Silverio for the O C R R; and Señorita Lamar for all of the women's organizations.

I shall formally commence mediation proceedings tomorrow morning, receiving first the delegates of President Machado and subsequently in a separate interview the delegates of the opposition. I shall read to each group the message from the President and make a brief statement myself outlining the nature of my own participation in the negotiations.

I had this morning an interview with President Machado in which I explained to him the manner in which I intended to conduct the mediation proceedings. He gave me again very clearly to understand that he would be willing to leave the government in the hands of a vice-president throughout the electoral period but that if he were to maintain his present control of affairs such determination by him must not now be publicly announced nor must it be made the subject of any condition to be imposed by the opposition. I stated to him that I was in full accord and that such action on his part must be understood when the time came as coming freely as of his own initiative.

WELLES

837.00/3567 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 1, 1933—1 p. m.

[Received 2:30 p. m.]

103. My telegram No. 101, June 30, 4 p. m. I formally declared mediation proceedings commenced this morning. I received in the Embassy the delegates of the Government at 10 a. m. and the delegates of the opposition at 11 a. m. I read the President's message to both groups. It was received with the most enthusiastic approval. The declaration of the President is of peculiar value in that it makes definitively clear the President's personal interest in the success of these negotiations.

I subsequently read a statement emphasizing the fact that my tender of good offices would not have been made if I had not previously clearly understood that my services were desired by both sides in the controversy. A copy in full of my statement will be sent by mail.

On Monday I shall hold a meeting of the delegates of the opposition to determine the agenda and to exchange preliminary views. I have arranged for a meeting of the governmental delegates on Tuesday for the same general purpose. I am happy to state that there is very evident on both sides not only a conciliatory disposition but an apparent feeling of expectancy that these negotiations will have a successful outcome.

The opposition factions are already splitting into two groups, one extremely radical; and the other, the larger group, decidedly conservative. In the former category is of course the A B C which is composed very largely of radicals. Fortunately however the representatives of that organization are both intelligent and well-disposed and I am hopeful that for some weeks at least the organization can be kept in line.

WELLES

123W451/110 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, July 7, 1933—4 p. m.

54. Personal for the Ambassador. Could you give me any idea how much longer you feel that, in justice to the work which you are now doing, you should remain in Habana? I realize, of course, that there is still much to be done in the political field, as well as in the negotiations for the revision of the commercial treaty. With me it is a question of considering whether it would be worth while to appoint Caffery Assistant Secretary of State pending your return.

PHILLIPS

837.00/3570 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 7, 1933—4 p. m.

[Received 6:20 p. m.]

106. My telegram No. 103, July 1, 1 p. m. Negotiations between the Government and the opposition delegates have until now progressed very favorably. All measures providing personal guarantees for the members of the opposition parties which have accepted mediation as requested by them have been granted by the Government and will be made public this afternoon.

After considerable difficulty I succeeded in convincing the President of the necessity of raising martial law and of the reestablishment of constitutional guarantees in the province of Habana, the only province of the Republic in which martial law exists at the present time. The President through his representatives has informed me this morning that he will reestablish constitutional guarantees here as soon as a law governing the press which has been drafted has been passed by the Congress and as soon as a special law vesting exclusive jurisdiction in the Supreme Court of the Republic of all cases covering the illegal use of explosives has been passed. I am in accord with the President that before a return to normal constitutional procedure in the province of Habana can be effected the authorities of the Government should be provided with the security entailed in these laws. The President assures me that these two laws will be passed before July 15th. The reaction to the reestablishment of constitutional guarantees will, of course, be overwhelmingly favorable.

Negotiations are now in progress whereby all of the small remaining groups of revolutionary outlaws in the interior of the Republic can give themselves up to the authorities under full guarantee of liberty and personal safety. I believe that all of these remaining groups will return to their own homes within the coming week.

I have this morning been informed by General Herrera that 45 political prisoners will be released before the middle of next week. In general, the conciliatory disposition shown by the Government in the negotiations has caused a very speedy return to more normal conditions.

The declaration opposing the mediation proceedings made public by General Menocal in Miami yesterday and republished here has created very little impression. Menocal has been consistently losing prestige during the past 3 weeks and even the closest members of his family here in Cuba are openly supporting the mediation proceedings. Practically all of his political followers of importance have joined the opposition

wing of the conservatives in supporting the mediation proceedings and are represented in the proceedings through their delegate, Dr. Albanes.

Early next week the opposition delegation will present to me a draft project of constitutional reform for transmission to the President's representatives. In the study which these latter will make of the opposition's proposals they will be assisted by a parliamentary commission which the President will appoint tomorrow consisting of three members of each House.

WELLES

123W451/111 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 8, 1933—11 a. m.

[Received 2:25 p. m.]

107. Your telegram No. 54 July 7, 4 p. m. It is almost impossible at this juncture to reply with any certainty. Any change at this stage in the political negotiations no matter who replaced me would almost inevitably create a complete breakdown. The mediation negotiations will probably come to a crisis in about 2 to 3 weeks' time. If the outcome is successful I should unquestionably remain here until the constitutional reforms to be agreed upon and the new electoral code have been passed by Congress. If the negotiations fail it would probably be wise to make the change at that time since a radically different policy would then have to be inaugurated.

The purely political work may be divided into three steps: (1st) getting the opposing factions to consent to try to find an agreement; (2nd) the negotiation of such agreement; (3rd) the carrying out of the agreement which is a process which must continue until November 1934. The first step only is accomplished while the second is under way. I feel that I should be replaced only when a definite decision is reached by me as to whether the second step can or cannot be taken.

With regard to the commercial treaty the ground work is practically completed. I expect to commence final negotiations myself about the end of this month. I do not anticipate protracted delay in reaching an agreement on the treaty unless the Department has views other than those which I myself have in mind.

My hope is that I may be relieved not later than the end of September. I am particularly anxious as you know to undertake the preparatory work for the Inter-American Conference at Montevideo next December ²⁶ and 2 months at least would be required for this task which I consider of fundamental importance.

²⁶ See vol. iv, pp. 1 ff.

In view of the above I should think therefore that it would be preferable to appoint Caffery Assistant Secretary of State until it is possible for me to leave Habana.

WELLES

837.00/3575 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 12, 1933—11 a. m.

[Received 12:41 p. m.]

109. A bomb was placed in the doorway of the American Club yesterday which exploded without causing any serious injury or any material damage.

Upon their own initiative all of the delegates of the opposition represented in the mediation proceedings made public immediately a joint declaration condemning in the strongest words this action. As an indication of the change in public opinion this declaration is significant inasmuch as three of the sectors signing this declaration, namely, the A B C, the O C R R and the U R ²⁷ had until 5 or 6 weeks ago been pursuing exactly the same terrorist activities which they now strongly condemn.

The secret organizations of the opposition are making an immediate investigation to try and ascertain the individual responsible for the placing of this bomb. I anticipate having a report both from the Government and from the opposition within the next 48 hours. I have reason to believe that the bomb was placed either by a member of the Government secret police which is bitterly opposed to the mediation proceedings or by a member of the local Menocalista group which I have verified was directly responsible for the placing of the bomb in Dr. de la Torriente's house last week.

WELLES

837.00/3576 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 12, 1933—noon.

[Received 4 p. m.]

110. The last 4 days of the mediation proceedings have been somewhat critical due to the irritation caused the A B C by the refusal of the authorities to release Dr. Castellanos and a group of the members of that organization who had been seized shortly before commencement of proceedings in possession of a considerable quantity of arms

²⁷ Unión Revolucionaria.

and explosives. This feeling was intensified because the arms had been placed in Dr. Castellanos' house in order to prevent less responsible members of the organization from having control of them. Last Sunday the delegate of the A B C informed me that he was instructed to abstain from further meetings of the opposition delegates until the Government demonstrated a more concrete desire to furnish the guarantee asked by the opposition members. The professors of the university and in fact all of the opposition delegates took more or less the same ground but did not refuse to attend such meetings as I might desire to have with the opposition delegates.

The President at my instance yesterday afternoon decreed the immediate freedom of those members of the A B C above-mentioned and likewise authorized me to state that essential guarantees desired by the opposition were granted *in toto*.

The delegate of the A B C consequently returned to the mediation conferences yesterday and at a full conference of all of the opposition delegates held at the Embassy in the afternoon complete satisfaction was expressed by all of the opposition groups with the existing situation. On Thursday therefore the opposition delegates will hand to me the first draft of constitutional reform for transmission to the Government's representatives.

The President informed me yesterday that in order to expedite negotiations he had caused the Liberal Party, the Popular Party and that portion of the Conservative Party which has been cooperating with the administration each to appoint a committee of five members to represent their respective parties before me in the mediation proceedings. The President stated that he felt that this was a more practical plan than his original intention of appointing a congressional committee inasmuch as all of the political parties would now be definitely on record as supporting the utilization of my tender of good offices. This action on the part of the President is distinctly beneficial in the sense that through the control of the rank and file of each party which these committees will have due to the appointment on them of the most important leaders of each party it will make much less likely any breakdown in the mediation proceedings since even if later on some of the opposition factions break away the organized political strength of the country will be thrown behind the negotiations. The Popular Party while it has been assumed to have been entirely under the control of the President during the past 4 years has now commenced to adopt an independent attitude and many of its members are in fact leaders in the opposition as for example Dr. Silverio who is the delegate of the O C R R in the mediation proceedings. The Conservative Party likewise has within the past week taken an open attitude of opposition to the Government in opposing recent tax legislation

sought by the President in Congress and I consider it not at all unlikely that before very long the Congressmen belonging to the orthodox wing of the Conservative Party who have heretofore refrained from appearing in the House of Representatives will once more attend sessions and after reorganization of the leadership of the party amalgamate the hitherto dissident wings of the Conservative organization. In other words, the Popular and Conservative Parties will in all likelihood soon return to a normal condition of opposition to the Government and will be prepared to avail themselves of the opportunities for party reorganization which the new electoral code will furnish.

The disadvantages of the representation in the mediation proceedings of political party committees lie primarily in the fact that since I will now have to deal with 15 additional individuals in the sessions which may be held the opportunities for interminable discussion and protracted delay are greatly enhanced.

Professor McBain is proceeding very rapidly with the formulation of his recommendations for revision of the electoral code. He has conferred frequently with experts connected both with the Government and with the opposition and he finds that these representatives of both sides are in very material accord with the nature of the recommendations which he is prepared to submit. He has not as yet commenced his study of the university problem.

WELLES

837.00/3579 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 17, 1933—11 a. m.

[Received 12:50 p. m.]

112. The President at my request late Saturday evening decreed the abolition of the censorship of the press. Of their own initiative the editors and proprietors of every newspaper and magazine published in Habana had previously given me their written assurance that until such time as a press law which is now pending in Congress is passed, their publications would not publish any material which might tend to disturb public order or interfere with the successful course of the mediation negotiations. The press law referred to has been drafted with a view to the suggestions made by the opposition delegates.

The one obstacle that prevents the immediate reestablishment of full constitutional guarantees lies in the fear of the President that once the guarantees are reestablished members of the opposition will at once bring suits in the civil courts against the members of his

administration based upon occurrences which have taken place here since the winter of March 1931 when martial law was first declared. There appears to be no manner in which this danger can be eliminated except through the immediate passage of a general amnesty bill which would necessarily have to include all members of the Government as well as those members of the opposition who have been found guilty of offenses against the authorities and who have not been pardoned. There will be necessarily violent objection on the part of some of the opposition factions to such whitewashing of officials of the Government but all of the more moderate members of the opposition are in favor of such a measure as the easiest way out of the difficulty in view of their realization that an amnesty bill of this character will in any event inevitably be passed sooner or later.

WELLES

837.00/35791

The Ambassador in Cuba (Welles) to President Roosevelt ^{27a}

HABANA, July 17, 1933.

[Receipt date not indicated.]

MY DEAR MR. PRESIDENT: Your letter of June 24th ^{27b} made me very happy. I appreciate deeply what you were good enough to write. I am more than satisfied if what I have been attempting to accomplish here in Cuba merits your approval.

The situation in general is distinctly encouraging, far more so than I had hoped six weeks ago. President Machado and the three organized political parties of the Republic have formally accepted my tender of good offices, and every important faction in the opposition has taken the same action with the exception of the small and constantly diminishing group which surrounds General Menocal. I am unable to attach very much importance to the student groups. While they have not expressed their approval of what we are trying to do, they at least have declared that they will suspend all terroristic activities. It is now twelve days since we commenced negotiations and I am happy to say that the various delegates are concentrating upon questions of principle, upon the need for changing the system rather than the individuals, and have modified very distinctly the uncompromising and unreasoning attitude which many at first maintained.

I think there is now a good chance that through a reform of the Constitution and through the utilization of the new electoral code which Professor McBain is helping to draft, we can work out a fair

^{27a} Photostatic copy from the Franklin D. Roosevelt Library, Hyde Park, N. Y.

^{27b} Not found in Department files.

J and just solution of the political problem strictly within the lines of constitutional procedure. In this connection, I feel that I must have specific and personal instructions from you. At some time within the next two or three weeks, the suggestion will be made that after a Vice President satisfactory to all parties has been selected and has taken office, the President resign and make it thus possible for the Vice President to remain in entire control of the Government until a new Constitutional Government has been elected in November 1934. This means that President Machado will have to permit the Vice President to take control about May 1934. The term which he now is filling would normally expire in May of 1935. The reason for this suggestion, which to my mind must necessarily be acceded to by President Machado, is that no opposition party will go to the national elections in November 1934 if President Machado remains in control of the Government. They are confident that fair elections cannot be held so long as he remains in the Presidency. As I have reported several times to the Department, I have every reason to believe that President Machado will agree to take this action should he be permitted to take it of his own initiative and should it not be forced upon him as a condition by the opposition. The solution in my mind, furthermore, is fair to all concerned, inasmuch as the President's own party will have just as many guaranties in the person of the Vice President, in the new constitutional reforms, and in the new electoral code as the opposition parties will have. It is perfectly possible, in fact, as I now sum up the situation, that the candidate of the President's, the Liberal, party will be elected in 1934. Consequently, the only sacrifice that the President will have to make will be to shorten his term by one year, and you will recall that the last constitutional reform which made the President's re-election possible was accomplished in such a manner as to leave very grave doubt as to its legality and as to its conformity with the articles of the preceding Constitution.

In the same last constitutional reform—that of 1928—the Senators and Congressmen extended their own terms of office. No more striking blow at the principle of representative government can be conceived. These extended terms must, of course, all be cut in the new reform so that the entire Senate and House will be renewed in the general elections of 1934.

Moreover, if the opposition parties do not go to the elections of 1934, whoever is elected in those elections will have bitter opposition to him throughout the term for which he is elected, and, in all likelihood, we will again be confronted with a situation in Cuba identical with that through which we have just been passing.

I consider the plan suggested both reasonable and eminently fair to all concerned, and I wish to urge it upon President Machado as a patriotic solution of Cuba's problem when the time comes. I wish, however, to have your specific authorization to do this and I wish, further, to be authorized to tell him that such oral representations as I make to him in this sense are being made with your full knowledge and approval.

The ground is very well cleared now for me to commence immediately the negotiations for the revision of the commercial treaty. Cuban public opinion is, in general, thoroughly well satisfied with the treatment accorded Cuba in Washington in the Sugar Conferences. If, when consumption of sugar in the United States once more returns to normal, Cuba is permitted to export into the United States 2,000,000 tons of sugar at a stabilized price, and with the added preferential advantage which I hope we will be authorized to give Cuba in the new commercial treaty, she will definitely be set upon her feet again, because her exports of sugar to the world market and local consumption of sugar total another million tons, and with a production of 3,000,000 tons of sugar annually, there is no reason why social conditions in Cuba should not improve materially, providing the next Government undertakes the passage of much needed social and economic legislation. We will likewise regain an exceedingly important market for our exports.

I am, of course, keeping the negotiation of the commercial treaty as a leverage until I know definitely where I stand on the political solution.

I cabled Bill Phillips the other day that I hoped very much that I could consider my portion of the Cuban task accomplished by the end of September and then return to the Department. I am particularly anxious to take up the preliminary work for the inter-American Conference at Montevideo in December, which, in my judgment, if properly handled, can result in the greatest benefit to the United States.

The overwhelming success of the Administration during these four months has given me greater satisfaction than I can express.

Faithfully yours,

SUMNER WELLES

837.00/3580 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 19, 1933—noon.

[Received 3:55 p. m.]

113. As indicated in recent cables to the Department, I consider it indispensable that constitutional guarantees in Habana be restored

immediately by President Machado in order that the members of the opposition especially and the citizens of this province in general may no longer be subject to the arbitrary rule of the military and may be afforded the opportunity within customary legal limitations both of meeting and of expressing their opinion without being liable at any given moment to a jail sentence. It is impossible to conceive of a successful outcome of the present negotiations unless this step is taken in the immediate future.

A general amnesty is presumably necessary as a preliminary step in order that members of the Government may be protected against suits brought in the civil courts for acts committed during the past two and one-half years which suits could be undertaken when martial law is raised. Such amnesty must of course in my judgment include all political offenders.

The President of his own accord declared to me that constitutional guarantees would be reestablished before July 16th. No steps have yet been taken towards the drafting or passage of the general amnesty required and I have good reason to believe that certain members of the President's Cabinet have advised him to delay as long as may be possible. If martial law continues none of the delegates of the opposition will continue negotiations and none of the prominent leaders of the opposition will return from the United States in view of their well-founded fear that they would be subject at any moment to being thrown into prison.

The President is absent from the capital and is expected to return tomorrow. I shall see him immediately upon his return and state to him that I am not willing to continue negotiations unless he will comply with the assurances which he gave me more than a week ago. I should like to have immediate authorization from the Department to state that the Department is fully in accord with the statement which I will make to the President in this sense. All of the factions of the opposition have kept their promise to me to refrain from any acts of violence or attacks upon any of the authorities of the Government. Whatever acts of violence have taken place, and there have only been four during the past 6 weeks, have been committed by individuals not connected with any of the important opposition groups, and the armed forces at the command of the President are more than sufficient to preserve order in any emergency. There is consequently no justification for further procrastination in restoring normal guarantees to the people of Habana and I cannot emphasize too strongly that a continuation of these negotiations will be impossible unless this measure is taken in the immediate future. I beg to request a reply from the Department by cable at the earliest possible moment.

WELLES

837.00/3580 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, July 19, 1933—6 p. m.

58. You are authorized to state that the Department is fully in accord with the statement you intend to make to President Machado, as set out by you.²⁸

PHILLIPS

837.00/3584 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 26, 1933—11 a. m.

[Received 3:20 p. m.]

115. The general amnesty bill has now passed both houses of Congress and will be promulgated by the President this morning. It will take effect upon publication. The law as finally passed contains all of the amendments suggested by opposition leaders and is all-embracing. As a result all political offenders, whether those convicted or those awaiting trial, will be immediately released from prison and their civil rights restored. Furthermore, all political offenders in exile abroad may return since any charges that might lie against them are automatically quashed. The terms of the amnesty bill, of course, likewise whitewash all officials of the Government responsible for crimes committed in the political turmoil of the past 6 years. Certain non-political sectors of the opposition have protested publicly against the passage of this bill but have confidentially informed me that they favor it because of the benefits accruing to the members of the opposition and because of the fact that it made immediately possible a return to more normal conditions.

The President assured me last night that simultaneously with the promulgation of the amnesty bill he would proclaim the reestablishment of constitutional guarantees which latter measure consequently should become effective tomorrow. The resulting abolition of martial law, the elimination of courts martial and military tribunals and the placing of the responsibility for the maintenance of order in the hands of the police and of the civil courts will necessarily tend immediately to create a favorable atmosphere for the successful outcome of the mediation negotiations. It is, of course, highly probable that the sudden change from military repression to constitutional liberty will result in sporadic attacks upon the authorities but I am personally confident that every important faction of the opposition is making a

²⁸ See *supra*.

sincere and determined effort to prevent disorder and to maintain discipline within their ranks. The gravest element of danger in my judgment lies in the utterly irresponsible attitude pursued by portion of the press. The editors and proprietors of all of the Habana newspapers of their own initiative assured me that they would refrain from the publication of inflammatory or seditious material during the mediation proceedings. This voluntary obligation has, however, been broken by one or two of the newspapers and while a severe press law will be passed within the next 48 hours it is very probable that this portion of the press will succeed in stirring up public opinion to an altogether unwise extent against the Government and the existing Congress.

Immediately after the definite reestablishment of constitutional guarantees I shall call the first meeting of the Mixed Commission, composed of members of all of the existing political parties represented in Congress and all representatives of the opposition sectors, to reach an agreement upon the constitutional reforms proposed by the opposition. The project of reform proposed by the latter embraces permanent reforms and on this basis I anticipate a very speedy agreement on both sides.

Once an agreement is reached I shall make an effort to obtain an agreement on the so-called transitory reforms which, of course, involve the solution of the existing political problem. The present tendency on the part of the opposition, although opinion has not as yet crystallized, is to suggest that inasmuch as the 4-year Presidential term is to be reestablished in the new constitution and the Vice-Presidency reestablished President Machado agree to shorten his existing term so that the Vice-President now to be selected will replace him until the end of the present Presidential term of office and further to suggest that the existing Congress consent to shorten its term to the period ending May 1934. The exact manner in which these suggestions will be proffered, however, still remains to be determined and I have stated that I was not willing to discuss the transitory reforms until a final agreement had been reached on the permanent reforms.

WELLES

837.00/3583 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 26, 1933—4 p. m.

[Received 6:40 p. m.]

117. I had an interview with the President this morning in the course of which he informed me that he had already promulgated

the amnesty bill and the decree reestablishing constitutional guarantees referred to in my telegram 115, July 26, 11 a. m.

The President emphatically assured me that the success of the mediation negotiations was his own success and that inasmuch as that was the case he would at all times and in every way facilitate the reaching of a fair agreement. He urged me to do what I could to expedite the return to Cuba of Colonel Mendieta and of Colonel Mendez Peñate. He expressed the belief that it was essential for them to lose no time in organizing their political strength and that in such effort now that constitutional guarantees had been reestablished, no hindrance of any kind would be put in their way for the issuance of political propaganda, for the holding of political meetings, and for any other legal form of activity desired by them. He likewise assured me that Miguel Mariano Gómez would be offered exactly the same facilities although for personal reasons (the President being convinced that Doctor Gómez was directly involved in an attempt to assassinate himself and his family) he would decline to have any personal relations with him which attitude he will likewise adopt with regard to General Menocal should the latter return.

Finally the President emphatically stated that once the permanent reforms to the constitution had been agreed upon the leaders of the opposition should agree upon five or six essential points comprising the transitory reforms and reach an agreement through me with the leaders of the political parties upon them and that once such agreement should be reached he himself would interpose no obstacle to the carrying out of such agreement.

I have obtained the impression in conversations with leaders of the Liberal Party, the President's Party, that they are looking to the future rather than to the present and that should they find a candidate who had strength among the opposition factions they would agree to almost any compromise. A portion of the party is considering the possibility of supporting the candidacy for the Presidency of Miguel Mariano Gómez and there is very considerable sentiment among the rank and file of the party in support of the candidacy of Colonel Mendieta.

If the President's frame of mind as made evident today in my conversation with him were to continue unchanged there would be no possibility of an unsuccessful outcome of the present negotiations. The chief difficulty is, however, that the President changes his mind with the utmost frequency and it is impossible to foretell what his opinion may be when the transitory reforms are brought up for discussion.

837.00/3585 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 27, 1933—10 a. m.

[Received 1 p. m.]

119. My 117, July 26, 4 p. m. Four hours after the termination of my interview with the President, General Machado made an entirely unexpected visit to the Senate and to the House. In the rambling and at times almost incoherent speeches which he made, the President asked the support of all of the political parties until 1935 and stated that my own mediation here had already been gladly accepted by him because it was "spontaneously offered by a friend of Cuba" and was not undertaken "upon the instruction of the United States Government". The obvious intention of the President was to make clear that my mediation did not imply any infringement of the sovereignty of Cuba nor impair the authority of the Cuban Government. His visit to the Congress was due to the fact that it was reported to him early in the afternoon that a debate would probably take place in which the charge would be made that the reestablishment of constitutional guarantees and the passage of the amnesty bill had been impressed upon the President and that the leaders of the Conservative Party particularly and some of the members of the Liberal Party would take the lead in urging that the parties take steps to conserve their own interests and sever existing connections with the Machado administration.

The President's speeches were delivered at a singularly inopportune moment and were in many passages most unfortunately worded. They will unquestionably create a very great measure of disquiet among the opposition circles and will necessarily hinder materially the rapid progress of the mediation negotiations which I had anticipated yesterday morning. The President's action yesterday afternoon confirms more than ever the opinion expressed in the last paragraph of my telegram number 117 above referred to.

If an appropriate opportunity is presented to comment on President Machado's speeches it would be helpful if the Department would state that while of course my tender of good offices has been made spontaneously as stated by President Machado, it could not have been made other than with full authorization of my Government.

WELLES

837.00/3587 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, July 27, 1933—7 p. m.

[Received 9:30 p. m.]

120. The first meeting of the Mixed Commission composed of delegates of the opposition and delegates of the three political parties took place this afternoon. I commenced the proceedings with a brief address emphasizing again the salient features of President Roosevelt's message to the Cuban people²⁹ as made public on July 1st. The meeting was significant in that for the first time in 3 years constructive discussion between members of the opposition and of the Government's adherents took place. A distinctly patriotic and satisfactory spirit was shown by both sides and agreement was reached on several important features of the constitutional reform as proposed. The next meeting of this Commission will be held tomorrow and every day subsequently under my chairmanship until a final agreement is reached.

WELLES

837.00/3638

Memorandum by the Acting Secretary of State

[WASHINGTON,] August 2, 1933.

The Cuban Ambassador called to my attention the press reports which were appearing in the United States and in Cuba to the effect that Ambassador Welles had announced that there will be no progress in the commercial treaty negotiations until the political conferences had reached a satisfactory conclusion. In other words, said Mr. Cintas, Mr. Welles is using the economic distress in Cuba, which can only be cured by a new commercial treaty, to bring pressure to bear upon President Machado to carry out Mr. Welles' wishes; the Ambassador gave vent to his feelings on this subject and to the improper course which Mr. Welles was pursuing, which he said led to certain disaster; one or two alternatives would result—either President Machado would be shot or American Marines would be landed; he saw no other way out of the impasse which was rapidly approaching.

I told Ambassador Cintas that at this morning's press conference I had been asked to explain the press statements to which the Ambassador had just referred; I had said in reply to these inquiries that informal conversations were proceeding between the Embassy and the Cuban Government in preparation of the more formal treaty negotiations; that Ambassador Welles was so preoccupied with his

²⁹ See telegram No. 49, June 21, 5 p. m., to the Ambassador in Cuba, p. 311.

political conferences that he had not had time up to the present to take up seriously formal treaty negotiations, but that undoubtedly he would do so as soon as he had the opportunity; that I had denied, I said, that the United States was holding up commercial treaty negotiations until President Machado had come to terms.

The Ambassador talked at length in his usual strain of the iniquities of the present situation and of the false position which Mr. Welles was taking in dictating a policy to President Machado; he warned me that such a policy was doomed to failure and that any such failure would be a great blow to the prestige of the United States.

WILLIAM PHILLIPS

837.0131/64 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, August 2, 1933—3 p. m.

[Received 6:45 p. m.]

121. Professor McBain yesterday handed his completed report for electoral reform to President Machado. In my judgment the recommendations are admirable in every way and if carried out will eliminate a very material percentage of fraud and of motives for corruption in future elections.

The President has requested me to obtain the confidential approval of the opposition leaders to the report and as soon as that is obtained he will send the report, together with the draft of the required changes in the existing law, with a special message to Congress in which he will urge the immediate passage of the necessary legislation.

A copy of the report in English is being transmitted immediately to the Department by mail.³⁰

WELLES

837.00/3594 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, August 2, 1933—3 p. m.

[Received 7:48 p. m.]

122. I had a private interview with the President yesterday afternoon. The President commenced his conversation by referring to his addresses to the Senate and to the House of last week and expressed his regret for certain portions of them. He stated that almost invariably when he spoke in public he made statements which he did

³⁰ Copy transmitted to the Department in despatch No. 96, August 4, 1933 (817.0131/65); not printed.

not intend. Since the truth of this assertion on the part of the President is very obvious and since it was evidently his desire to terminate the incident with this expression of regret I made no reference thereto beyond expressing my appreciation of the fact that he had referred to me as "a friend of the Cuban people".

President Machado voiced his concern over the disorder which was occurring in so many parts of the Republic and expressed his deep appreciation of the fact that I had succeeded in having the leaders of all of the opposition factions issue a joint manifesto urging the groups which they represented to hold no public meetings or parades under present conditions in order to avoid disturbances. I told the President that I felt it would be easier to maintain tranquility and to avoid regrettable incidents like those which occurred during the preceding 2 days such as the death of a woman Communist demonstrator and the ill treatment of school teachers by the police, if the police were given the most stringent orders not to interfere with public demonstrations unless the demonstrators were injuring private property or assaulting the authorities. There are a great many rumors to the effect that certain members of the Government who are bitterly opposed to the mediation proceedings, notably Doctor Zubizarreta, the Secretary of Gobernación, are utilizing the secret police to stir up these popular demonstrations and are trying to obtain a general strike throughout the Republic which would presumably result in such disorder that the Government would once more be obliged to declare a state of martial law. I have as yet however absolutely no evidence to confirm these rumors.

In my conference with the President and in an earlier conference which I had yesterday with the Speaker of the House of Representatives, who is the leader of libels [*Liberal?*] Party in the lower House, both of them stated that the Congress would unquestionably ratify any agreement which was entered into under my auspices by the Government, the political parties and the opposition leaders provided such agreement made it possible for the President to resign his office in a "decorous" manner such as the institution of a Vice-Presidency would be. Both stated unequivocally that they realized that the President would have to resign his office immediately after the Vice-President was inaugurated. The Speaker of the House furthermore stated that he would be the first to declare publicly that if the agreement which was to be entered into provided for the shortening of the terms of all of the present members of the Senate and House to the date of the next national elections he would be willing to make such a sacrifice but he stated very positively that he felt it would be extremely difficult to obtain the consent of all of his colleagues in the House of

Representatives to the same action and said that he hoped for a compromise on this point.

The meetings of the Mixed Commission composed of the members of the political parties and the delegates of the opposition are proceeding in a highly satisfactory and expeditious manner. The delegates are at present discussing the advisability of limiting materially the powers of the executive and are agreed unanimously upon the prohibition of reelection of all executive officials.

WELLES

837.00/3601 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, August 4, 1933—2 p. m.

[Received 4:50 p. m.]

125. The first definite proof I have received of probable governmental complicity in the general strike threat was the visit a few minutes ago of the delegates of the Liberal Party requesting me in view of the seriousness of the situation in the Republic to suspend the mediation negotiations. My reply to them was as emphatic as I could make it. I stated that if mediation proceedings broke down I could assure them that the opposition factions would immediately return to terrorism and to revolution and that in my judgment in view of the unrest which now exists the Government could not possibly withstand the assault which would be made immediately upon its authority. I told them that if they persisted in their intention they themselves would be directly responsible for the downfall of the Government and for disaster to the Republic of Cuba.

The delegates told me at the termination of the interview that they withdrew their suggestion and would continue in the mediation negotiations with the utmost sincerity and unimpaired spirit of cooperation.

I will see the President at 1 o'clock today and shall request a definite statement from him as to whether this suggestion by the representatives of his party is to be interpreted as an expression of his own opinion.

WELLES

837.00/3603 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, August 5, 1933—11 a. m.

[Received 3:30 p. m.]

126. My 125, August 4, 2 p. m. After their interview with me the directors of the Liberal Party went immediately to see the President

and told him that the Liberal Party felt that the only possible salvation for Cuba lay in the agreement which they believed could be reached through the mediation negotiations and that under no consideration would the Liberal Party withdraw from the proceedings.

I had lunch yesterday with President Machado. He was in a highly nervous and excitable condition but in his conversation with me both courteous and entirely reasonable. He told me that the mediation had weakened the authority of his Government but that he himself believed that the only possible solution lay in the agreement which could be reached through the mediation negotiations. He said that he was willing to agree to any fair solution proposed but that he was not willing to agree to be "thrown into the street". I agreed to certain minor requests which he made of me, namely, that the opposition be prevented from publishing in the newspapers complaints which they made to me as mediator of action taken against them by subordinate authorities of the Government. He admitted that the visit to me earlier in the morning by the directors of the Liberal Party had been made at his instigation and likewise frankly admitted that his party had differed with him in the matter. I am under the very distinct impression that for the first time since he was elected the Liberal Party have summoned up sufficient courage to dictate to the President and are not being dictated to by him.

In a private conversation which I had last night with one of the directors of the Liberal Party he told me that in their interview with the President early yesterday morning the President was utterly uncontrolled and gave the impression of a man who was unbalanced mentally. He told me that it was impossible to argue or reason with the President at that time but that he felt the attitude taken by the directors of the party in the second interview would prevent any further insistence by the President that the Liberals withdraw from the mediation negotiations.

The Mixed Commission stayed in session for 10 hours yesterday and I shall keep the Commission in permanent session today and tomorrow Sunday until a final agreement is reached on the permanent reforms to the constitution. Practically all important points have already been agreed to other than the length of the Presidential term and the independence of the judiciary. On the latter point an agreement can readily be reached. On the former point a compromise will probably be necessary. The agreement already arrived at includes a modified parliamentary system which limits materially the powers of the executive and which I have every reason to believe will prove highly beneficial to Cuba if finally enacted.

WELLES

837.00/3605 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 7, 1933—11 a. m.

[Received 12:20 p. m.]

128. In view of the extreme gravity of the situation here it would be of the utmost usefulness to me to have a reply to the inquiry contained in my letter to the President of July 17 of which you have a copy.

WELLES

837.00/3606 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 7, 1933—noon.

[Received 4:15 p. m.]

129. The general strike has now spread throughout the Republic. Every form of transportation is tied up. The Government employees of the Departments of Sanitation, Communications, and of the Treasury, have declared themselves on a strike and consequently no telegraphs are functioning and the ordinary sanitary requirements of the city will no longer be complied with. All of the provision merchants, restaurants, and even the hotels, are closed and there will be a state of near starvation within the next 24 hours. While some of the police in the capital have been guilty of the same tactics pursued during the past months which have resulted in the injury of a score of people in the city yesterday, the strike up to the present time has been absolutely peaceful in character and so far as I am informed there has been no aggression against the authorities nor damage to private property except on a very inconsiderable scale in the interior.

Saturday night and yesterday morning I had continuous interviews with the official representatives of the three political parties and of the members of the opposition. I have decided that the only possible solution to prevent a state of utter chaos in the Republic in the near future is the following:

1. Appointment by the President of an impartial Secretary of State acceptable to all elements.

2. The request by the President of the [Congress] for leave of absence and authorization by him of the new Secretary of State to reorganize the Cabinet giving representation to all important political elements.

3. The immediate passage by the Congress of the constitutional reforms which have been elaborated by the Mixed Commission as the result of which the members of House of Representatives will agree to shorten their terms so that half of the House will be renewed in the national elections of 1934 and those representatives remaining in the House to shorten their terms to a corresponding extent as those who will vacate in that year.

4. Half of the Senate is renewed in 1934 and the remaining Senators to agree to shorten their terms to a total period of 6 years.

5. The creation of the Vice-Presidency, said Vice-President to assume the Presidency upon his inauguration.

I had an interview with President Machado yesterday afternoon. I communicated to him my views and I impressed upon him that if he did not accept this entirely constitutional and dignified solution as an act of patriotism and sacrifice on the part of all concerned I believed that the situation here would very rapidly degenerate into a condition of absolute anarchy which would result in the loss of innumerable lives and destruction of property. I reminded him of the obligations of the United States under the permanent treaty but I told him that the whole purpose of my mission here was to avoid the United States Government having to consider the carrying out of such obligations. The President expressed his entire willingness to resign as soon as the Vice-Presidency was created but stated that in his judgment for him to ask for leave of absence and to allow a Secretary of State to carry on until the Vice-President was inaugurated would be disastrous in its consequences. I told him that I could see no reason for such belief on his part and that I thought the disaster would arise from his not being willing to adopt such a measure. He referred to the fact that the Congress as a measure of precaution desired to suspend constitutional guarantees today and I said that in view of the gravity of the situation I had no objection to offer thereto provided that the guarantees were suspended for a limited and fixed period, which he agreed to.

I have had this morning an interview with the leaders of the Liberal Party. They are now in session with the President and will tell him that in their judgment, for the benefit of the country, for the benefit of the Liberal Party, and for his own reputation, the President must adopt the measures indicated above. Both the Conservative and Popular Parties are absolutely in accord with the solution proposed and they will, before evening, as will the directors of the Liberal Party, obtain the consent of the members of House and of the Senate to the steps indicated.

Most of the factions of the opposition will agree to this compromise although certain of the more radical elements will probably demur.

If this agreement can be reached within the next 48 hours and made public I am very confident that the strike will immediately cease and that the state of the country will rapidly become normal once more. If an agreement is not reached through the unwillingness of the President to take the action necessary I foresee the gravest consequences.

837.00/3608 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 7, 1933—6 p. m.

[Received 7:13 p. m.]

131. My telegram of August 7, noon. The President has not as yet reached any decision as to his course. I have just been advised by General Herrera that he has removed the former Chief of Police of Habana who is execrated by the public and replaced him with an officer in whom the public will have confidence. Meetings of the members of Congress of both the Liberal and Conservative Parties are now in session and I shall be advised by the leaders of the parties as soon as a decision is reached.

The streets are filled this afternoon with almost unmanageable crowds and the police have been firing upon them to prevent them from congregating around the capitol and around the President's palace. The President himself is at his country place outside the city.

WELLES

837.00/3606 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, August 7, 1933—7 p. m.

64. Referring to the Under Secretary's telephone conversation with you this afternoon the President authorizes me to say that he approves the plan as outlined in your 129, August 7, noon.

HULL

837.00/3609 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 7, 1933—11 p. m.

[Received August 8—12:42 a. m.]

132. Department's 64, August 7, 7 p. m. I requested an immediate interview with President Machado. General Herrera informed me that the President was indisposed and consequently unable to receive me although the Liberal Party leaders inform me he is receiving them tonight. I shall endeavor to obtain an interview tomorrow morning. I think it would be helpful if the Cuban Ambassador in Washington were informed by the Department tomorrow of the President's authorization and approval as conveyed to me and of the very grave consequences which may ensue if President Machado refuses to agree to an eminently fair and patriotic Cuban solution of the political problem which every faction has agreed to including the President's own party.

The killed this afternoon in Habana alone total 17 and the wounded over 100. I feel it obligatory to emphasize the extreme seriousness of the situation.

WELLES

837.00/3629

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] August 8, 1933.

The Cuban Ambassador called me on the phone to say that he had been talking with President Machado this afternoon, that there had been a meeting of the workers at the Palace and that the strike had been called off; all the workers, he said, had agreed to go back to work and complete tranquility existed throughout Cuba; President Machado told Ambassador Cintas that Mr. Welles had presented this morning, in writing, a communciation which, in fact, meant the overthrow of the Government; President Machado said that he could not and would not be "pushed out by the United States". Ambassador Cintas said that, although he knew Mr. Welles had this in mind for a long time, this was the first proposal he had made of it directly to the President; the Ambassador repeated that Machado had said to Mr. Welles that he would not accept the plan suggested of the substitution of the Secretary of State and the ultimate election of a Vice-President.

WILLIAM PHILLIPS

837.00/3615: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 8, 1933—8 p. m.

[Received 10:35 p. m.]

133. To be delivered immediately to the President at Hyde Park.

I have just sent to the Department a full report³¹ upon the situation here and my recommendations of policy in connection therewith which I have requested be communicated to you immediately.

President Machado has this afternoon informed the Senators and Representatives that my statement to him that the solution presented by me was offered with your full approval and was presented with your authorization is false and that no such approval has been given me by you. I am informed that Cintas has cabled him to that effect. I understand that you are seeing Cintas at noon tomorrow. I beg that you inform him that I am acting in every detail with your fullest au-

³¹ *Infra.*

thorization and approval. I also beg to request that you inform Cintas that while the purpose of my mission here is to avoid the existence of a situation which would give rise to intervention by the United States if a situation of anarchy exists and there is no government in Cuba capable of protecting "life, property and individual liberty" as provided in the third article of the permanent treaty the United States will not evade its obligations under that provision. Both Cintas and President Machado have repeatedly given important leaders here the belief that I am not authorized by you to act and that the attitude I have adopted is one of bluff. I feel that it is essential if I am to succeed in procuring a solution of this very grave situation that Cintas be told by you to inform President Machado immediately that absolutely no act of mine has been taken except with your full approval and authorization.

WELLES

837.00/3616 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 8, 1933—9 p. m.

[Received August 9—4:48 a. m.]

134. I had an interview with President Machado this morning. I told the President that in accordance with my conversation with him of last Sunday afternoon, I handed him as mediator a solution of the Cuban political problem which represented a compromise accepted by the sectors of the opposition, by the directors of the Popular and Conservative Parties and by seven leaders of the President's own party, the Liberal Party, including the president of that party, and which compromise would permit the Cuban people to return immediately to a state of peace and tranquility, and be enabled as a result thereof to devote themselves to the restoration of Cuba's economic prosperity. I told President Machado further that I was specifically authorized to state that the solution as proposed by me met with the full approbation of the President of the United States.

The President immediately stated that he would not accept this solution as proposed and that I could inform the President of the United States that he would prefer armed intervention to the acceptance of any such proposal. It was obvious that he was in a state of mental disturbance bordering on hysteria which, however, later changed into a more reasonable attitude. He stated that he was as much in favor of my mediation as he had ever been and that no one could have carried out their official duties in a more friendly spirit and in a manner less calculated to injure the susceptibilities, either of the Republic or of any individual, than I had. I pointed out to

him, that notwithstanding his assertions in a radio address which he had broadcast last night, the solution as proposed, represented neither imposition nor interference by the Government of the United States, but was a solution which had been drafted as the result of conferences between the representatives of every part of Cuban public opinion. I stated that the solution in no wise impaired the sovereignty of the Republic and was furthermore entirely in accord with existing constitutional procedure in Cuba; that it must be obvious to him that rightly or wrongly the refusal to the Cuban people to return to a state of political tranquility was due to the fact that the existing Cuban Government was charged with all of the tragedies and economic disasters which had taken place during the past 3 years; that it had been my earnest hope that the President as a patriotic gesture would agree through the solution proposed to make it possible for a rapid return to normal conditions here and that it was my firm belief that unless the solution proposed or one similar to it was carried into effect, no such betterment could be possible.

The President informed me that he accepted the last three points of the solution proposed but would never accept the first two. I inquired whether this was intended to mean that he would refuse to consider any counterproposition and he told me that on the contrary he would consider the desirability of formulating a counterproposition. To this I replied that in view of the extreme gravity of the situation here I felt that I was entitled to receive a reply from him within a very brief period.

The Presidents of the Conservative and Popular Parties have been to see me today to assure me of their unfaltering support in view of their belief as stated in a formal resolution of the Conservative Party "That Mr. Welles be advised in his character as mediator, as likewise all those who compose the mediation commission of the fervent desire of the Conservative Party for a solution of the domestic political problems which now confront the Republic and of the hope which inspires the Conservative Party that with a high spirit of patriotic sacrifice there will be established shortly peace and relief to the Cubans".

The President has appealed to the cupidity of many of the members of the Liberal Party in Congress in order to stir up opposition to the solution proposed, owing to the fact that necessarily the representatives who agree to shorten their terms will have to give up the lucrative privileges to which they are now entitled.

I trust that through the joint influence of the political leaders in Congress and of certain of the higher-minded members of the Cabinet such as General Herrera, the President will reconsider the attitude which he has taken. I am, however, by no means hopeful of the outcome.

I think the situation demands forceful and positive action by the Government of the United States in order that our prestige both here and in the rest of the continent may not be seriously prejudiced. If President Machado remains in power he can only continue through the exercise of the most brutal methods of repression, which will culminate time and again in such tragedies as that which took place in Habana yesterday. It will be impossible for him to govern without a continuance of martial law and the suspension of all constitutional guarantees, which condition makes it possible, of course, for the President and the military authorities to assassinate, to throw into prison, and to deprive of "life, property and individual liberty", any citizen in the Republic.

The Government of the United States has clearly demonstrated its intention to use every possible means at its disposal to further and to support a peaceful and constitutional adjustment by the Cuban people of their problem. The realization of that end is made impossible solely by the unwillingness of one man, President Machado, to retire from the office which he holds through a reelection which in its genesis is unquestionably unconstitutional. Throughout the course of my mission here, I have exerted every possible effort to avoid the creation of a situation which might result in intervention by the United States. If the present condition is permitted to continue much longer, I am positive that a state of complete anarchy will result which might force the Government of the United States, against its will, to intervene in compliance with its obligations under the permanent treaty.

I should like further to emphasize the fact that in my own judgment the permanent treaty imposes upon us responsibilities as regards the Cuban people. I do not see how the Government of the United States can, in view of its treaty obligations, continue its formal support of a Cuban Government which has consistently deprived the Cuban people of their constitutional rights, which has been guilty of atrocities which have shocked the entire continent, and which refuses to consider the acceptance of a fair and Cuban solution of this disastrous situation. I believe that intervention should be avoided at any cost except that of failing to comply with our treaty responsibilities, but on the other hand I believe that should President Machado positively refuse to agree to the solution proposed, or to one similar in character, the Government of the United States should no longer accord its moral support to the Government of Cuba and should withdraw recognition.

I do not believe that the withdrawal of recognition would in all probability force us to intervene; I think that if the President himself was advised that we would withdraw recognition unless he

accepted a fair solution of the problem, he would be obliged to accept such solution by most of the members of his Cabinet, by the Army and by the great majority of Congress. If, however, he persists in refusing to accept any compromise after notification that recognition would be withdrawn, in such event, I do not believe that his Government would be able to maintain itself for more than an exceedingly brief period and should steps be taken by me in advance in accordance with the leaders of the political parties and with the important leaders of the opposition to provide for the installation of a stable government immediately upon President Machado's forced resignation, I have every reason to believe that the situation here would continue sufficiently within control to make it unnecessary for the United States Government to undertake even a brief armed intervention.

The Department will understand that I have for many weeks past been giving the possibilities which have now arisen the most serious consideration, and it is in view of the considerations set forth above that I make the following recommendations:

1. That if at the end of a reasonable period President Machado has given me no indication that he will either accept the solution proposed by me as mediator or adopt some other solution equally satisfactory, I be authorized to inform him that the United States Government will withdraw recognition of the Cuban Government within a stated time unless the President consents to a solution of the character proposed and that I be instructed to declare that the action would be based upon the unwillingness of my Government to continue to lend its moral support to a government in Cuba which is maintaining itself in power by martial law and through the exercise of brutal methods of repression, and which is unwilling to agree to a compromise acceptable to every element of public opinion in Cuba existing at the present moment.

2. That I finally be instructed, upon the expiration of the period indicated in the preceding paragraph, should President Machado still refuse, formally to withdraw recognition of the Cuban Government after having agreed with the political leaders and with the leaders of the opposition upon means of installation of a stable government, and to leave the Republic.

In order that I may be guided by a thorough knowledge of the instructions of the President and of the Department, I beg to request that this recommendation of policy by me be placed in the President's hands at the earliest possible moment and in any event before he sees Cintas tomorrow and that I be advised of the course I am to pursue at the earliest moment that such instructions can be cabled to me.

WELLES

837.00/3622 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 9, 1933—10 a. m.

[Received 2:05 p. m.]

135. In summarizing the views expressed in my telegram 134, August 8, 9 p. m., I feel it desirable to emphasize the following points as the result of the intensive study I have made here during the past 3 months:

1. There is absolutely no hope of a return to normal conditions in Cuba as long as President Machado remains in office. No one other than the exceedingly small clique of officeholders surrounding him has any trust or confidence in him and he represents in his person to every other Cuban the cause of economic distress and personal suffering which has existed during the past 3 years.

2. So long as this condition continues there is no possible chance of improving economic conditions in Cuba, and there will be immense loss to the Cuban people themselves and as a natural corollary to all of the American interests doing business in or with Cuba.

3. The solution proposed by me as mediator represents a compromise framed by the representatives of all Cuban factions both of the opposition and of those which have in the past been cooperating with the Government and if such solution could be carried into effect I have the utmost confidence that peace and tranquility would be restored to Cuba within a week.

4. If my recommendations are adopted and recognition is withdrawn from the Machado Government I believe that the President would be forced to resign his office within a very limited period and that a stable government could be installed in strict accordance with the provisions of the existing constitution within a period of hours thereafter provided arrangements to that end are made by me before recognition is withdrawn.

5. If recognition is withdrawn there will in all likelihood be for a brief period disturbances in the city of Habana. If my recommendations are adopted and this eventuality takes place I feel that two American warships should be in Habana harbor with instructions not to land a man except in the gravest emergency the terms of which should be precisely defined beforehand.

The ultimate objective, in addition to the immediate objectives above-mentioned, of the recommendations which I formulated, is to permit the Cuban people to hold free and constitutional elections for a new government in accordance with the existing constitution in November 1934. If President Machado remains in power even until February of next year no political parties can reorganize and none of the opposition parties will organize, with the consequence that the elections due to be held in November 1934 would once more result in the election of a government which did not come into power with the free consent of all of the Cuban people.

You will understand, I am sure, that the recommendations I have made have been offered with reluctance and only after the most careful consideration. I can frankly state, however, that I see no other solution.

WELLES

837.00/3620 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 9, 1933—noon.

[Received 2:40 p. m.]

137. The Spanish Ambassador has complained to me of the treatment to which Spanish citizens have been subjected during the past 3 days by the authorities of the Government. Three Spaniards have been killed by the police, two of them without having given the slightest motive for such action, and some 60 in the city of Habana have been arrested on the pretext that they have refused to open the stores of which they are the owners. The Ambassador has protested vainly to the authorities and although he has succeeded in obtaining the release of some, many are still in prison. He wishes to cooperate with me in every possible manner but necessarily feels that the Spanish Government cannot permit such a state of affairs to continue indefinitely without taking very strong measures.

The British Minister has been to see me this morning. He spoke to me of damage done to British property in the interior and of a report which he had received through Reuters that a British cruiser was being sent to Cuba. He told me however that he did not believe the report as he had had no official word.

WELLES

837.00/3623 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 9, 1933—noon.

[Received 3:32 p. m.]

138. Personal for the Under Secretary. I have received confirmation this morning from two reliable sources of the fact that yesterday at a secret meeting at which were present Ainciart, until recently Chief of Police, and four other police captains, a plan was decided upon should President Machado be forced to resign to assassinate me in order to provoke immediate American intervention. Countless reports of a similar character have come to me during the past 10 days to which I have paid no attention. In this instance the information comes

directly from one of those present when the plan was concerted who is a member of one of the secret organizations. It has furthermore a creditable basis inasmuch as I was directly responsible for the removal of Ainciart from his position and since he is fully aware that should a change in government take place he would be immediately subject to trial and punishment for the innumerable crimes of which he is personally guilty. By forcing, as he thinks, an American intervention he would be guaranteed by the intervening power against aggression from Cubans and against punishment inasmuch as the blame for such action would be attributed immediately by the authorities to one of the secret societies and if there were no witnesses present the conspirators would naturally escape scot-free.

I shall naturally not change in the least my mode of existence nor take other than ordinary precautions but I think the information will give you an indication of the state of affairs now existing here.

WELLES

837.00/3624 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 9, 1933—5 p. m.
[Received 8:20 p. m.]

139. As the result of the intensified propaganda of President Machado yesterday evening and throughout this morning it is possible that a resolution will be adopted by the Cuban House of Representatives tonight attacking my course here. I have been handed by a member of the House a copy of a draft prepared by a violent supporter of the administration which contains among others the following declarations:

“That the activities of His Excellency the Ambassador of the United States to Cuba interfering in the interior problems of the Government have caused a deep perturbation of public order and the threat embodied in his insinuations of possible intervention in our country are a violation upon our rights as a free and independent people and an aggression upon the sovereignty of small nationalities.”

Inasmuch as the proposal handed by me to President Machado was headed “proposal of the mediator for a just and fair solution of the Cuban political problem” and the proposal contained exactly the points enumerated in my telegram 129, August 7, noon, to the Department and inasmuch as I have never discussed the possibility of intervention with any political leader or with anyone other than President Machado and in that case in the precise terms communicated to the Department in my cable above referred to it is obvious that the pro-

posed resolution is solely predicated upon the continued allegations by President Machado that I was acting without the authority of my Government and had attempted to force the acceptance of a solution without authorization.

Referring to my personal telegram to the President of last night ³² and to my conversation by telephone with the Under Secretary this morning, if President Machado is permitted to believe as he apparently does that the United States will under no conditions and under no circumstances comply with its treaty obligations, I have every reason to believe that he will not give in until the very last possible moment. If on the other hand it is emphatically made clear to him that while the whole object of my mission has been to avoid intervention and that the United States will only consider intervention if it is forced to do so by the clear requirements of its treaty obligations as contained in article 3 of the permanent treaty it is much more probable that he will finally agree to the solution proposed, I can not help but feel that it is an infinitely wiser policy on our part to state very clearly at this juncture that we will not evade our treaty obligations if we are obliged to comply with them, rather than to evade the issue and let matters slide into a state of affairs where we will have to take the only action which we desire to avoid. The President himself and those around him are confident that because of the prejudice to our own interests the United States Government will not intervene now under any conditions whatsoever. If they can be dissuaded from that belief a peaceful solution will be far more probable.

WELLES

837.00/3623 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, August 9, 1933—6 p. m.

66. Your 133, 134, 136,³³ 137 and 138 were communicated to the President. At Ambassador Cintas' request, the President received him this afternoon.

The President reminded the Ambassador that the eyes of the world are centered upon President Machado, not to see how he can extricate himself out of the present political difficulties, but to see whether he will act as a truly great man, who has the interests of his entire people at heart. He added that President Machado can go down in history as a great man, a great leader and a great patriot if he will take the step recommended by the representatives of all the Cuban political parties and so avoid what might easily develop into bloodshed and anarchy.

³² No. 133, August 8, 8 p. m., p. 339.

³³ No. 136 not printed.

The President appealed to President Machado, through Ambassador Cintas, to prove to the world his high purpose in this crisis.

The President informed Ambassador Cintas that you are and had been acting at Habana with his fullest authorization and approval. He added that he had no desire to intervene but that it was our duty to do what we could so that there should be no starvation and chaos among the Cuban people.

Ambassador Cintas then pointed out the difficulties surrounding President Machado's position and that he could not allow himself to be forced out of the presidency. The Ambassador agreed that, if means could be found by which President Machado could act as of his own initiative, there was still hope that he could be persuaded to do so. He agreed that a face-saving device was necessary. The President suggested that the economic situation should be utilized for this purpose rather than the political crisis, that if President Machado could step out in order to save the Cuban people from starvation, he would not only be saving his "face", but would be performing a noble act. The President suggested that, in this event, a shipload of food supplies could be sent from this country to Habana for the benefit of the Cuban people.

Ambassador Cintas promised to call up President Machado on the telephone as soon as he had reached New York, would report his conversation and would thereupon call up the Secretary of State or the Under Secretary and give us the reaction of President Machado.

At the conclusion of the interview the President gave out the following statement:

"The President and Ambassador Cintas discussed the Cuban situation, especially in its economic aspects. They feel that the problems of starvation and of depression are of such immediate importance that every political problem should be met in the most patriotic spirit, in order to improve conditions at the earliest possible moment. The Ambassador is communicating with his Government."

Inasmuch as Ambassador Cintas has expressed the hope that President Machado may be willing to make some counterproposal tomorrow or the next day, we think it would be desirable for you not to press him further at the moment.

HULL

837.00/3626 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 9, 1933—8 p. m.

[Received 10:30 p. m.]

141. I have just been handed the official resolution of the Popular Party in which is contained the following declaration:

"The Popular Party in order to bring about concord, reestablish moral peace among Cubans and to maintain and fortify the independence of the Republic against every risk, hereby express their absolute identification with the procedure of the representatives of the Popular Party, all of the agreements reached as to constitutional reform, as to the establishment of the parliamentary system of government, as to the enforcing of the rights of individuals and likewise as to the shortening of the terms of office enjoyed by the members of this party in the national Congress".

The decision reached by the Popular Party in its National Assembly which met this afternoon thus confirms the declarations previously made to me by the chiefs of that party.

The Conservative Party which has already taken similar attitude as the Department was advised together with the Popular Party comprise a little less than half of the membership of both Houses.

WELLES

837.00/3630 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 10, 1933—4 p. m.

[Received 7:04 p. m.]

142. My 134, August 8, 9 p. m. President Machado this morning with the help of Ferrara succeeded in forcing the executive committee of the Liberal Party to pass a resolution rejecting the solution presented by me as mediator. The President attempted to persuade the Conservative and Popular Parties to take the same action. The President of the Conservative Party refused and in the letter sent by him to President Machado at noon today of which he sent me a copy he stated that while his party had not requested the President to retire he invited him "in the name of the Conservative Party to make the gesture as an act of the highest nobility which would add luster to his name together with his titles of General and President of the Republic." The heads of the Popular Party have stated that the resolution of the party communicated by me to the Department in my 141, August 9, 8 p. m., is all-inclusive and was clearly intended by them to express their approval of the solution presented to President Machado. They advised me they will refuse the President's request.

It is very obvious that the leaders of the Liberal Party are doubtful which way to jump. Both Senator Barreras, President of the Senate, and Governor Barcello, the President of the Liberal Party, told me in unmistakable terms that they felt that the solution proposed was the only one that would save the country and that it must consequently be accepted by the President. Ferrara told me this morning however that both of these individuals had stated to him not only that

they were not in accord with the President's retirement but that I had told them in my conversation with them that the President's decision must be reached within 48 hours. Needless to state I never made any such assertion to either of these two Liberal leaders and the allegation is completely false as are all of the others which the President's supporters are attributing to me. I am advising the Department of these facts in view of my belief that the attempt will very soon be made, if it has not already been made, by the Government to try and show that I have exceeded my instructions and my faculties as mediator.

WELLES

837.00/3634 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, August 10, 1933—4 p. m.

[Received 9:45 p. m.]

165. In a talk with Doctor Puig⁸⁴ today he said that Mexico thought most Cubans wished Machado's removal or abdication but felt that intervention by the United States alone would not be approved by Latin American countries. It might indeed militate against agreements by the Montevideo Conference⁸⁵ in the success of which he is deeply interested. He pointed out that Machado following the plan of Huerta would appeal to Cubans against intervention by "the Colossus of the North" stimulating the natural opposition to outside dictation. This would strengthen his position with Cubans. However, if the United States should say in effect that whereas the Platt Amendment imposed upon it a right and a duty but that it generously proposed to act in cooperation with other countries on this continent, this joint action, such as Wilson's belated confidential conference in the Huerta situation⁸⁶ would be wise. I know it would be hailed with approval in Latin America. Puig believes it would result in the ousting of Machado. If Mexico was represented on such a body this country would cooperate in securing for Cuba a government which would insure peace and bring prosperity. Just before I called on Doctor Puig the Japanese Minister was there. He had said to Dr. Puig that it looked like the United States was about to do in Cuba what Mexico and our country had condemned Japan for doing in Manchuria. Puig answered that there was no such analogy because under the Platt Amendment and the Cuban Constitution the United States had both a right and duty to intervene to end Cuban revolution.

⁸⁴ J. M. Puig Casauranc, Mexican Minister for Foreign Affairs.

⁸⁵ See vol. iv, pp. 1 ff.

⁸⁶ See *Foreign Relations*, 1914, pp. 487 and 489.

I hope Pan American participation in reaching settlement in Cuba may be invoked and Mexico invited to take part. Memorandum of conversation being sent by air mail.

DANIELS

837.00/3632 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 10, 1933—5 p. m.

[Received 8:18 p. m.]

144. For the President. I am deeply grateful for the statements you made concerning me to the Cuban Ambassador yesterday. They have been of the utmost help. Every possible effort is being made by the Government supporters to convince the members of Congress and the members of the opposition that I am acting without your approval and at the same time to attribute statements to me which I have never made. I believe that the suggestion you made through Cintas to President Machado should be absolutely acceptable. I further believe that your idea of a gesture of generosity towards the Cuban people in this critical moment will be helpful. The situation is increasingly disquieting but I can assure you that I shall exert every effort of which I am capable to try and promote a solution by the Cubans themselves. The chief difficulty of the moment is to enable the political leaders to obtain correct information.

WELLES

837.00/3633 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 10, 1933—6 p. m.

[Received 8:42 p. m.]

145. I had this morning a very long conversation with Ferrara. I read to him a paraphrase of the Department's 66, August 9, 6 p. m. In accordance with the authorization given me over the telephone later I am sending Ferrara a written copy of such paraphrase. It was perfectly obvious that Cintas had not reported correctly to Ferrara his conversation with President Roosevelt.

The bases of Ferrara's arguments were: an indefinite extension of time before reaching any decision; acquiescence on our part for the Government to put down the general strike by any means necessary as a method of insuring public order in the future; and finally that the solution proposed by me as mediator should have been proposed some 6 or 7 months from now during which time I should have permitted negotiations to drag on.

After a protracted discussion Ferrara stated that President Roosevelt's suggestion that food supplies be sent here to alleviate distress was a futile gesture and that if possible bases for agreement could be reached upon a liberal loan to be made by the United States Government to the Machado administration without interest for a stated period together with the immediate negotiation of a new commercial treaty which would grant Cuba material advantages he would advise President Machado to resign some time later after the effects of the action taken by the United States Government had permitted President Machado to regain his lost popularity.

I replied to the Secretary of State that I could not convey any such bargain to my Government predicated on a continuance of power of the Machado administration; that I had reached the conclusion that normal conditions in Cuba could not exist so long as the present administration continued and that I believed any counterproposal advanced by President Machado should be based upon patriotism and the needs of the Cuban people and the interests of the Cuban Republic rather than upon any idea of the United States making loans to Cuba over which the existing Machado administration would have control. I stated that while I was without authority to say so it was my personal belief that as soon as there existed in Cuba a constitutional government which merited the confidence of all of the Cuban people the Government of the United States would be disposed to consider favorably any reasonable requests for economic assistance which might be advanced.

Ferrara told me that he would like to think matters over; that he would confer with President Machado tomorrow morning and that he would then, tomorrow afternoon, talk again with me and give me some indication in a definite way of what President Machado intended to do.

WELLES

837.00/3623 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, August 10, 1933—8 p. m.

69. Department's No. 66, August 9, 6 p. m. Ambassador Cintas called at the Department this morning and had an interview of nearly 2 hours with the Secretary and Under Secretary. He went over the whole situation and insisted that our method of approach had been wholly wrong and was decidedly pessimistic as to the outcome. The Secretary said that he hoped General Machado would agree to cooperate in the endeavors that are being made to prevent a situation of anarchy and chaos in Cuba. He said that the chief purpose of Am-

bassador Welles' mission to Cuba is to avoid a condition which would call for our responsibilities under the Permanent Treaty. In reply to the Secretary's query as to what suggestion he had to offer in the circumstances, the Ambassador said that it would be helpful if the Department would ask you to come to Washington for consultation; the Ambassador felt that in this way President Machado would be freer to make concessions which it was impossible for him to make while he was in the position of being pressed to do so through you by the United States Government.

Later in the day Ambassador Cintas asked the Under Secretary to transmit this suggestion to the President, which the Under Secretary felt obliged to do this afternoon by telephone. With the President's authority the Under Secretary conveyed the following reply to Ambassador Cintas:

"That the President had received the message and had given it consideration, but that he was not disposed to ask Ambassador Welles to come to Washington for consultation, that once more he desired it to be understood that he had the utmost confidence in Ambassador Welles and felt sure that the Ambassador was doing everything possible to be helpful in the circumstances; furthermore the Under Secretary conveyed, at the President's request, the message that obviously the next move was up to President Machado and that that move was a simple one, that certain suggestions had been presented to President Machado by representatives of the various political groups, that President Machado had turned down two of the five suggestions and that it was, therefore, now up to him to offer some counterproposal in place of these two, that the President was waiting for action by President Machado and that time was the essence of the whole problem."

Ambassador Cintas told the Under Secretary, on receiving this message, that he was leaving for Cuba this evening and that he desired to be helpful. The Under Secretary assured him that he had an opportunity to be of immense help and that he was counting upon him for such assistance.

HULL

837.00/3637 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 11, 1933—10 a. m.

[Received 12:10 p. m.]

147. As a decided rebuff to the attempt made throughout the day of yesterday by President Machado to force the Conservative Party to reject the mediation negotiations and the solution proposed by me to President Machado the Senators and Representatives of the Con-

servative Party in Congress last night passed the following official resolution:

"That the party has always been contrary to foreign intervention since it is its supreme ideal to maintain unimpaired the national sovereignty in accordance with the point of view invariably maintained by the Conservative Party, neither this parliamentary committee nor the party has at any time requested the President to shorten his term. But that this parliamentary committee in accordance with the instructions of the party has accepted without any mental reservations whatsoever the mediation of the Ambassador of the United States and is disposed to support any sacrifices whatsoever as may be necessary in order to reestablish normality in Cuba and cordiality in the Cuban family within the respect of the sovereignty of the Republic."

WELLES

837.00/3637a : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, August 11, 1933—1 p. m.

70. Personal from the Secretary to the Ambassador. Both the President and myself appreciate the trying difficulties with which you are faced in Cuba and have repeatedly informed Ambassador Cintas that we have the utmost confidence in you and what you are doing to be helpful.

Out of the mass of information which has been sent to the United States from Cuba some misapprehension has arisen as to what you are doing, and there has been some adverse comment, both here and in Latin America, that the United States is attempting to coerce rather than to persuade. I of course understand the difficulties you are facing and place no reliance whatsoever on these reports; however, I trust you will bear them in mind and do what you can to correct them.

At the Press Conference this morning I intend to reiterate that Ambassador Cintas was informed prior to his departure to Habana that you have the entire confidence of the President and myself. At the same time, I shall repeat that you are using your good offices in an endeavor to help the Cubans find a Cuban solution for their difficulties; that it is a mistake to speak of a "Welles' plan" as the only plan under discussion is a Cuban plan, agreed upon by Cubans and put forward by yourself on their behalf; and that it is important to bear in mind that you are acting as a mediator making a friendly effort to assist the Cubans to find a satisfactory solution for their problems.

HULL

837.00/3640 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 11, 1933—3 p. m.

[Received 8:35 p. m.]

149. After conferences last night and this morning with political leaders of all parties and with the most prominent members of the opposition I have determined in an interview which I shall hold with Ferrara this afternoon to state to him that if President Machado declares that he will not accept the first two points in the solution proposed by me but offers as of his own initiative as a counter-proposition a request for leave of absence until a Vice-President is inaugurated and the immediate resignation of all of the members of his Cabinet with the exception of General Herrera, the latter then to become acting head of the Government until a Vice-President is inaugurated, I will personally accept such a solution; recommend it to my Government for its approval; and recommend it to the leaders of the opposition as a solution of the immediate political crisis. General Herrera is Secretary of War and until Ferrara's return was Acting Secretary of State. I had a confidential talk with General Herrera late last night in which he gave me his formal commitment that in the event that the President suggested an arrangement of the character above-indicated he would accept the responsibility and would obligate himself to appoint a national Cabinet composed of those representative men of all political groups whom the leaders of such groups indicated. If the constitutional reforms are immediately passed the Vice-President will be inaugurated not later than next February and General Herrera would then retire from office turning over the Government to a new and impartial individual as Vice-President agreed upon by all elements, who would hold the national elections of 1934 and govern the country until the next constitutional period, 1935.

This suggestion should in every sense of the word be acceptable to President Machado for the following reasons:

(1) It permits him to save his face by declaring that he has not accepted the solution proposed by me but of his own initiative appointed one of the members of his Cabinet as head of the ad interim Government to hold office until the Vice-President takes over.

(2) It offers security to President Machado for the lives and property of himself and of the members of his present Government as well as of the members of his family. The fear of assassination is in my judgment the fundamental obstacle to President Machado's refusal to relinquish office under the solution originally proposed.

(3) It offers absolute guarantees to all of the members of the Liberal Party who are afraid of reprisals by the opposition.

(4) It insures the loyal support of the Cuban Army which is unanimously devoted to General Herrera although he is now retired from the Army and thus assures the maintenance of public order during the period entailed.

(5) Some of the opposition factions will protest but the retirement of President Machado and the formation of a national Cabinet giving representation to every element will in a very short period bring acquiescence. The principal leaders of the opposition have unanimously decided to accept this proposal since in their belief it is the only method of obtaining Machado's resignation and of avoiding American intervention which in their opinion Machado is at present determined to force.

(6) From the point of view of the United States Government it seems to me a thoroughly satisfactory solution inasmuch as it would be a solution undertaken upon the initiative of the President of Cuba and agreed to by the political parties and the main leaders of the opposition. It is essentially a Cuban solution of the Cuban problem.

I may say that General Herrera is the only member of the present Government who has unswervingly supported my efforts to bring about a peaceful solution of the political problem and that he has invariably maintained faith with me. His entire life has been spent in the Army and he has to my knowledge upon two occasions refused to permit the Army to be used for political purposes. He is exceedingly amenable to suggestions which represent the interest of the United States Government. While he has been chief of the Cuban Army since the beginning of the term of President Zayas 12 years ago until the month of May when he retired, he has not in any sense been responsible personally for the atrocities which have been committed by certain Army officers during the past few years.

In accordance with President Roosevelt's message to the Ambassador I shall insist upon prompt action. While the situation remains in general quiet it cannot remain quiet much longer. Any incident might provoke a general explosion.

I shall cable the Department further as soon as I have had my conference with Ferrara at 4 o'clock this afternoon.

WELLES

837.00/3641 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 11, 1933—8 p. m.

[Received 11:40 p. m.]

150. Dr. Ferrara, the Secretary of State, has just informed me that President Machado has instructed him that in view of the serious crisis of the moment he will be willing to ask leave of absence from the Congress not later than Wednesday of next week; request the immediate resignation of his Cabinet with the exception of General

Herrera permitting the latter full authority to form a national Cabinet composed of representatives of all sectors of Cuban public opinion. Machado will present his resignation to the Congress to become effective immediately after the Vice-President, who is to be impartial, not connected with active party politics, and acceptable to all elements, is inaugurated.

The President, nevertheless, intends to send to me tomorrow "for the record" a counterproposal to the solution presented to him by me as mediator. This counterproposition I understand will contain a request for the United States Government to give the new temporary Cuban Government both economic and financial assistance immediately. It likewise declares for a new version of the Platt Amendment and for an indefinite continuation of the existing administration. At the close the statement is made, however, that if this counterproposition is found unacceptable by the mediator the President will consider any other solution. The President has instructed Ferrara to state to me that as soon as this first counterproposition is declared by me not to represent the desires of the representatives of the Cuban political organizations, he will then of his own initiative take the action described in the first paragraph of this telegram.

The maintenance of public order during the next few days until the final step is taken will be exceedingly difficult. It is for that reason that it is essential that no indication be given by the Department of the President's intention to leave his office immediately until further arrangements for publication of such intention are determined upon here.

I am advised that the decision of the President to take action immediately was due to the fact that all of the ranking officers of the Army throughout the Republic had notified him that the Cuban Army would not support him further.

The rumors concerning General Herrera have been circulating continuously this afternoon. Some of the more violent members of the opposition are bitterly opposed to this solution. The more responsible leaders of the opposition, however, have determined to accept this solution as a patriotic necessity in order to insure protection of the elements which have been supporting the present Government and they are confident that the control which can be exerted through a National Cabinet will be sufficient to insure the success of the interim Government until the new Vice-President takes office.

The principal danger in the present situation lies in the fact that President Machado has postponed taking this action for a week beyond the time when it should have been taken. Unless the strike can be broken within the next few days before notification of a change in administration, disorders may very likely occur.

837.00/3642 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 12, 1933—3 a. m.

[Received 5:22 a. m.]

151. Since the abortive revolt of the first battalion of artillery yesterday afternoon there have been several threatened revolts in divers portions of the Army insisting upon the immediate resignation of President Machado. Ferrara, who impresses me as temporarily mentally unbalanced, without authorization of President Machado announced the latter's resignation and his substitution by General Herrera by telegraph to all the local commanders. Certain of these discovered the fact that the announcement was untrue and a far more serious revolt was at once imminent. I think the situation is now in control. If General Herrera is enabled by this afternoon to announce that he will appoint a Cabinet consisting of representative members of all parties and giving their names I am hopeful the effect of Ferrara's imprudence may be overcome.

The President apparently intends to hasten his resignation to Saturday or Sunday at the latest.

WELLES

837.00/3650 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 12, 1933—1 p. m.

[Received 5:40 p. m.]

152. After the promise of certain of the Army leaders at 4 o'clock this morning that they would agree to the ad interim Presidency of any Cuban provided President Machado would retire from the office I was advised at 7 that they had again changed their minds and would accept anyone other than General Herrera to whom they were personally devoted but whom they feared the great mass of the opposition would not accept on account of his past intimate connection with President Machado. As a consequence of this in a very high spirit of patriotism General Herrera assured me at 8 o'clock this morning that since it is necessary to follow constitutional procedure he would accept the ad interim Presidency as soon as the Congress had agreed to the legal absence requested early this morning in the special message sent by President Machado since under the existing constitution the Presidency ad interim can only be entrusted to one of the members of the Cabinet; that immediately after taking over the Presidency ad interim here he would appoint Dr. Carlos Manuel de Céspedes, former Secretary of State and former Minister at Washington, Secretary of State of the Republic and would immediately thereafter entrust the Presi-

dency of the Republic to Dr. Céspedes. Dr. Céspedes has accepted the offer and will retain General Herrera in his Cabinet as Secretary of War with which step all of the ranking officers of the Army are in entire accord. Dr. Céspedes has the great advantage of being regarded as thoroughly impartial by everybody in Cuba. He is likewise popular with the Liberal Party which at present controls the majority of the House and of the Senate and he is furthermore a most sincere friend of the United States. Dr. Céspedes will try to form his Cabinet during the remainder of the morning and early this afternoon and will inform me late this afternoon what appointments he has determined to make.

The procedure which is being followed consequently is strictly constitutional and in accordance with my telephone conversation with Assistant Secretary Caffery this morning. I understand that no official act of recognition by the United States is required. In accordance with our understanding I will first advise the Department of the constitution of the Cabinet and I beg to request immediate authorization to enter into official relations with the new government immediately afterwards.

President Machado after sending his messages requesting leave of absence and entrusting the Government of the Republic to General Herrera left the city for his country place where he is amply protected by two companies of troops in whom he has confidence. Most of the members of the former Government, all of whom have handed in their resignations which have been accepted, are in concealment fearing reprisals by the populace. Up to the present, however, while the city is filled with cheering crowds I have had no report of serious disorder except around the capitol where troops have now been sent to maintain order in order that the deliberations of Congress may not be interfered with.

The determination of President Machado to act with this patriotism is due to the fact that he was finally and definitely informed last night that all of the ranking officers of the Army were unanimous in demanding that he leave the Presidency during the course of today. His action cannot therefore in any sense of the word be described either as to the result of pressure by the United States nor as the result of a patriotic gesture on his part.

Fortunately the solution which has now been elaborated and which I have every confidence will be acceptable to the enormous majority of the Cuban people has been worked out solely by the Cubans themselves and represents in my judgment the expression of the volition of very nearly the totality of the Cuban people.

The next few days will probably be difficult but I now have confidence that the situation has been saved and that no further action on the part of the United States Government will be necessary.

WELLES

837.00/3653a : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, August 12, 1933—8 p. m.

73. From Caffery. The President and Secretary have asked me to express their warm congratulations to you and their appreciation of what you have done.

HULL

837.00/3644 : Telegram

The Consul at Nassau (Hurley) to the Secretary of State

NASSAU, August 13, 1933—8 a. m.

[Received 9:50 a. m.]

Ex-President Machado arrived here at daylight this morning.

HURLEY

837.00/3645 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 13, 1933—2 p. m.

[Received 4:25 p. m.]

154. For Caffery. Please express to the Secretary my deep appreciation of his generous message.

WELLES

837.00/3646 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 13, 1933—2 p. m.

[Received 4:25 p. m.]

155. For the President. I deeply appreciate your message. Without the unfailing support you have given me this solution, now promising to make possible a period of peaceful reconstruction in Cuba, would never have been obtained.

I feel we should determine at the earliest possible moment what if anything we can do to tide the new Government over financially. As you know, the Government is bankrupt and Government employees are practically starving as the result of non-payment of the salaries for months past. I shall formulate my recommendations within the next 2 or 3 days³⁷ but it looks to me now as if the only two possible

³⁷ See telegram No. 175, August 20, 2 p. m., from the Ambassador in Cuba, p. 578.

alternatives were, (1) a small loan to make possible the payment of arrears in salaries, or, (2) our consent and the consent of the American bankers to a limited moratorium on the service of the foreign debt.

Conditions this morning have improved very materially. The Army appears completely loyal to the new Government and the situation in all of the larger cities including Habana very well under control.

Thank you again for your message.

WELLES

II. Government of President Céspedes and Army Revolt Led by Sergeant Batista

837.00/3649 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 13, 1933—3 p. m.

[Received 6:15 p. m.]

156. Doctor Céspedes, after the passage by the Congress last night of the necessary legislation in accordance with the existing constitution, this morning formally took the oath of office as President ad interim before the Supreme Court of the Republic. His Cabinet as yet but partially decided upon will contain the following:

Secretary of the Treasury, Senator Daniel Compte, Conservative, who has the reputation of having an excellent practical knowledge of governmental finance;

Secretary of War and Marine, Captain Demetrio Castillo Pokorny, non-partisan. Captain Castillo is a graduate of West Point, was at one time General Crowder's aide, is half-American, was Secretary of Public Works in the "Honest Cabinet" of the Zayas Government and merits the entire confidence of Doctor Céspedes;

Secretary of Sanitation, Doctor Presno, one of the outstanding people of the country and a professor of the university;

Secretary of Public Instruction, Doctor Dihigo, likewise an outstanding professor of the university.

Doctor Torriente was urged to accept any Cabinet post he desired but refused on the ground that his prominence in the mediation activities made it undesirable for him to accept public office at this time. Doctor Martínez Saenz of the A.B.C. has been invited to accept the Secretaryship of Justice but has not as yet reached a decision. The other posts will be filled before tomorrow morning.

The situation in the cities is in general much more satisfactory. Martial law has been declared effective throughout the Republic and the military have taken a very determined attitude which has had a salutary effect. The crowds are still hunting down the hated members of Machado's secret police.

Most of the members of the Machado Government have left the country by airplane but General Herrera, who came to the conclusion yesterday that, while the Army had formally accepted him as Secretary of War, public opinion would not tolerate him in that capacity and consequently handed in his resignation to Doctor Céspedes, is still here hidden with his family on the top floor of the National Hotel. I have taken every possible precaution to insure his safety and I have requested guarantees of the Government for him and for those members of the Senate and of the House who are the most unpopular. General Herrera expects to sail on the *Santa Ana* tomorrow night for New York with his family and I shall go with him personally to the steamer.

The telegraph operators voted last night to go back immediately to work and the newspapers were published this morning for the first time in a week. Doctor Céspedes will see representatives of the other striking unions during the course of the day and urge them as a patriotic gesture to return to work tomorrow morning.

In view of the fact that the Government now established is unquestionably constitutional in its formation and that the Cabinet is of a high class representative character, and since the situation demands that the Government receive our official support immediately, I beg to request that I be authorized at once to state that the Embassy has established official relations with it.

WELLES

837.00/3647 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 13, 1933—4 p. m.

[Received 5:50 p. m.]

157. With the reported authorization of President Céspedes, Cuban gunboat *Juan Bueno Zayas* left Habana for Key West this afternoon to take to the United States the following members of Machado's family who were embarked at Habana or will be embarked on the high seas off the Coast of Varadero, Province of Matanzas:

Señora Elvira Machado, wife of ex-President; José Emilio Obregón, son-in-law with wife and children; Rafael Jorge Sanchez, son-in-law with wife and children; Baldomero Grau, son-in-law with wife; and two or three servants said to be of Spanish nationality. No opportunity to obtain visas.

Vessel cleared without American consular documents in emergency after notification to and by advice of the Embassy. It is requested that facilities be provided for disembarkation at Key West and that ample police protection be provided on journey through Florida, particularly at Key West and Miami.

WELLES

837.00/3648 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 14, 1933—3 a. m.

[Received 4:40 a. m.]

158. The United States Ships *Taylor* and the *Claxton* arrived at 1:30 this morning. I have just conferred with Commander Howard and have explained to him that there was in my judgment no reason now to anticipate any necessity for landing even one man. In the later afternoon the General Staff of the Army obtained better control of the situation. People were kept off the streets and patrols were established. In Marianao, a suburb, several casualties occurred and the enlisted men turned on the officers. Looting and burning of houses was extensive. The situation now however is well in hand throughout the city.

President Céspedes has asked me to bring the commanding officers to visit him tomorrow morning.

I feel very confident that the visit of these ships was essential for its moral effect alone. If the strike is broken today as I anticipate conditions may become normal rapidly and in that event the two ships might well leave after 48 hours.

WELLES

837.00/3656 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 14, 1933—11 a. m.

[Received 2 p. m.]

159. At 3 a. m. this morning President Céspedes announced the formation of his Cabinet as follows:

Gobernación, Colonel Federico Laredo Bru, Unión Nacionalista;
 Justicia, Dr. Carlos Saladrigas, A.B.C.;
 Hacienda, Dr. Joaquín Martínez Saenz, A.B.C.;
 Obras Públicas, Dr. Eduardo J. Chibas, Liberal;
 Agricultura, Dr. Rafael Santos Jiménez, Marianista;
 Instrucción Pública, Dr. Guillermo Belt, Unión Nacionalista;
 Sanidad y Beneficencia, Dr. Antonio Presno, University of Habana;
 Comunicaciones, Dr. Nicasio Silverio, O.C.R.R.;
 Guerra y Marina, Demetrio Castillo Pokorny, non-partisan;
 Presidencia, Dr. Raúl de Cardenas y Echárte, Conservative.

In addition to the Cabinet appointments the President appointed Dr. Estanislao Cartana, Liberal, Mayor of the Central District of Habana, the most important political post in the province; and Miguel Angel Cisneros, another prominent Liberal as Chairman of the Municipal Council.

Yesterday was a day of as much political stress as it was of stress in the maintenance of public order. The Cabinet as finally constituted represents a thorough new deal for Cuba. There is not a man appointed to the Cabinet who is not of high personal integrity and of individual ability. The younger generation and the ideas for which the organized groups of the former opposition have been struggling are very much in the fore. Because of the financial difficulties in which the new government finds itself in view of the fact that the members of the Machado Government systematically cleaned out the public treasury during the last days of their regime it is not easy to forecast how soon an effective administration can be set to work. At this juncture I can only state that I have the utmost confidence in the ability, integrity and patriotism of the President and of the members of his Cabinet. A great deal of criticism will undoubtedly ensue on account of the fact that the two leading secret organizations which have in the past engaged in terroristic activities are represented in the Cabinet in very important posts. In this matter my point of view has been that it was impossible for any constitutional government to exist in Cuba if strong terroristic secret societies remained in existence and that the only possible solution was for these organizations to be brought into the light and to seek to achieve the ends for which they are working through political and constitutional methods. The A.B.C. has a definite program and a definite purpose. This program is radical in character but includes two salient features—social reconstruction and honesty in administration with punishment by law of those guilty of malfeasance in office. If these two ideals can be carried into effect now or later nothing could be more salutary for the Republic of Cuba.

I am considerably concerned by the increasing demand by the newspapers and by the members of the opposition for the immediate abolition of the existing Congress on the ground that the elections under which the members were sent to the Congress were unconstitutional. If this point is carried general elections would have to be held for the vacancies in the Senate and in the House in the immediate future and I do not think the country is in a state to stand a national political campaign. I am endeavoring to urge the acceptance of the same compromise which was accepted prior to the overthrow of the Machado Government in the mediation proceedings, namely, the retention of the existing Congress until the elections of 1934.

A good many omnibuses and taxis are circulating in the streets; many of the stores have opened; and I am informed the street cars will again be in operation by noon today and that the railroads will commence operating before nightfall. Conditions in the city this morning appear to be rapidly becoming normal and for the time being

the danger of an anarchistic condition at least in the Province of Habana appears to have been averted. I have not as yet had reports from the interior.

WELLES

837.00/3665 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 15, 1933—noon.

[Received 3:39 p. m.]

162. The Secretary of War came to my house at 8 o'clock this morning to tell me that in his opinion the situation was most disquieting; that public opinion was rolling up tremendously against the continuation in office of any national, provincial, or municipal executive or legislative authorities who had held office under the old regime; and that this feeling was shared by the great majority of the younger officers of the Army. During the past 2 days the resignations of certain provincial governors and of the mayors of some of the more important cities have been forced from them or else they have been violently removed from office. He told me that in his opinion if the Government insisted upon replacing the former officials in office by force the Army in many districts would refuse to carry out orders. He also told me that agitation was spreading alarmingly against the Government for having permitted the departure from the country of so many of the officials of the old regime who were connected in the public mind with the atrocities performed by the Machado administration. He urged me to see the President at once and impress him with the gravity of the situation.

I went immediately to see President Céspedes and I told him that I thought he must take immediate energetic action. I suggested that he issue two declarations immediately, after consulting with his Cabinet to the following effect:

1. That his Government was determined that all of those employees of the prior government who had been guilty of crime or of malfeasance in office should be brought to trial and punishment and that it was his intention that strict justice be done but that his Government would insist upon it that such punishment be administered through legal channels and through the verdict of the courts and could not for one moment permit mobs to take the punishment of guilty officials of the Machado Government into their own hands.

2. That the prime requisite in benefit of the Cuban people was the immediate restoration of peace and of normality and of the return to work by the Cubans; that for the time being he demanded a definite truce with regard to the removal from office of unpopular officials of the former government and that as soon as normal conditions had

been restored his government would proceed energetically to carry out the will of the people through legal and orderly procedure; that for the time being such officials as had been appointed during the past 2 days to replace those who had either been ousted or who had resigned would be temporarily confirmed by the Department of the Interior but that such temporary confirmation would only continue until an orderly manner of obtaining the determination of the Cuban people in this regard had been achieved.

President Céspedes was in the utmost accord with the suggestion which I made and called his Cabinet together at once to take the necessary action, which all of the Cabinet members with whom I have spoken believe will do very much to control conditions. I feel that the prime necessity is to bring about at the first possible moment a restoration of discipline in the Army. Once this has been obtained the Government can count on its orders being carried out. At the present time this is unfortunately not the case. A great obstacle to the speedy control of the Army came about last night in the very serious illness of General Sanguily who had been appointed Chief of Staff by President Céspedes and who had been handling the situation admirably. He has had to undergo an operation and will be incapacitated, if he survives, for several weeks.

Reports from the interior in general today are more satisfactory but if immediate measures such as those indicated above are not taken by the Government to tranquilize opinion it is very difficult to foresee what may result.

The Secretary of War has urged me to leave the *Taylor* in the harbor here and has also requested me confidentially to advise the Department that in view of the danger which exists in the present situation reinforcements should be at hand both at Key West and at Guantanamo.

I am hopeful and at the present moment I believe that the situation will be controlled by the Government but I do not expect to be able to reach a definite conclusion on this point until several more days have passed.

The exiles who are now returning from the United States are unfortunately doing a great deal to increase agitation. They are taking the attitude that a triumphant revolution has placed the Government in power and that they are consequently entitled to dictate the policies of the Government. Furthermore the student group which is the most pernicious element in Cuban public life is constantly issuing inflammatory proclamations and making speeches of the same character over the radio. The representation of the A.B.C. in the government fortunately will make it possible for the A.B.C. to place itself squarely against the student activities and through the extraordinary organization which it possesses probably to dominate them but at the present

moment both the Government, the Army, and the organized political parties or groups of public opinion are all equally afraid of making themselves unpopular and consequently the strong action which is needed to dominate and control the utterly lawless student groups is lacking.

WELLES

711.37/183 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 19, 1933—noon.

[Received 4:15 p. m.]

172. Personal for the Under Secretary. I will appreciate it if you will lay the following considerations before the President at the earliest opportunity.

After considerable reflection I feel that in the best interests of our own Government I should be recalled and Caffery appointed to replace me, such change to take place not later than the first of September. My reasons for this belief are as follows:

1. The Cuban people have a Government which commands their confidence. This Government is composed of capable and high-minded men who are seeking the best interests of the Republic. It seems unlikely that any grave political disturbances will take place in the near future unless unexpected events materialize.

2. This Government has for its program preparation through the passage of a new electoral code based upon McBain's recommendations and through the formation of new parties and reorganization of the old ones, for the holding of free and fair elections next year, which will make it possible for a permanent constitutional government to be installed and in the meantime in frank cooperation with the United States to take all possible steps to hasten the return of economic prosperity to the Republic.

3. As soon as the President and the Secretary of the Treasury have the opportunity to give me an accurate picture of the financial situation of the Government I desire to announce immediately that the final negotiations for a new commercial treaty are being undertaken and at the same time announce the discussion of measures tending to relieve the desperate financial straits of the Government of President Céspedes. I think that I should be instructed to undertake the initiation of measures referred to and likewise be instructed to continue the commercial treaty negotiations so that it will be at once apparent that the nature of my mission was as much to improve the economic conditions of Cuba as to assist in bringing about a restoration of political

peace. My successor can of course push such negotiations to a conclusion.

4. My personal situation is becoming increasingly difficult. Owing to my intimate personal friendship with President Céspedes and the very close relationship which I have formed during these past months with all of the members of this Cabinet I am now daily being requested for decisions on all matters affecting the Government of Cuba. These decisions range from questions of domestic policy and matters affecting the discipline of the Army to questions involving appointments in all branches of the Government. This situation is bad for Cuba and bad for the United States. At the present moment no one criticises my relationship with the Government on account of the fact that the United States is today more popular in Cuba than it has been since the early years of the independence of the Republic. On the other hand there will very soon commence to be a large party of disgruntled office seekers who, added to the sincere opponents of American influence in Cuba and to the old-time political leaders who are now out of the picture temporarily—and I hope permanently—, will constitute a very considerable mass of public opinion and who will inevitably utilize the relations which I have with the Government as a means of political attack.

In my judgment the policy which this Embassy should from now on pursue is a policy which should have no connection whatever except in the event of urgent necessity with the political picture and which should limit itself to cooperating in the elaboration of constructive measures in benefit of the economic prosperity of Cuba and in benefit of American exports to the Cuban market.

5. If all goes well I should judge that the proper moment to make a change in the Embassy here would be September 1st. If as I hope the President still wishes me to return to the Department and desires me to cooperate in preparing for the Montevideo Conference I would like to suggest that if my recommendations are approved the announcement be now made that I am returning to the Assistant Secretaryship of State for that purpose and that Caffery has been designated as my successor here in order to complete with the greatest rapidity possible the negotiation of those economic and financial measures upon which both Governments may determine as of mutual benefit to our two countries.

I feel that the recommendations I have made above are in the interest of my Government. It is unwise not only from the point of view of our relations with Cuba but with the whole of Latin America as well for the American Embassy here to possess the measure of control over the Government which it now does possess owing to the peculiar developments of the past 2 months. Caffery unquestionably will

obtain all of the needed influence immediately after his arrival but it will be an influence exerted behind the scenes and not apparent to the public.

If by any mischance the political situation again becomes troublesome it would presumably be best for me to remain until it is straightened out because of the contacts which I now have, but should conditions continue to improve I am confident that the recommendations I have made above should be adopted.

WELLES

711.37/183 : Telegram

The Under Secretary of State (Phillips) to the Ambassador in Cuba (Welles)

WASHINGTON, August 21, 1933—2 p. m.

77. Personal from the Under Secretary. Your No. 172, August 19, noon. I at once laid your telegram before the President who has given it careful consideration. He is pleased that in your opinion political conditions have improved sufficiently to permit your returning to the Department in time to cooperate in preparing for the Montevideo Conference. At the same time, and while appreciating that the present relation between the Embassy and the Cuban Government may lead to some criticism, he believes it would be preferable for you to remain in Cuba until September 15th; he hopes that in the meantime you can make substantial progress with the commercial treaty negotiations.

The President approves the suggestions set out in numbered paragraph 3, as well as in the second sentence of numbered paragraph 5, and the final paragraph of your telegram.

Announcement of your return to Department will be made shortly.

PHILLIPS

827.00/3694 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 22, 1933—3 p. m.

[Received 8:30 p. m.]

180. With the arrival this morning of Colonels Mendieta and Mendez Peñate all of the old-time political leaders of the opposition have returned to Cuba with the exception of Miguel Mariano Gómez who is due to arrive by the end of the month.

A determined effort is being made now by certain of these leaders, notably Menocal, in conjunction with the extreme radicals to transform the present Government of Cuba into a purely revolutionary

de facto government. It is their announced intention to abolish the Congress and the existing judiciary and to remove all local provincial and municipal officials throughout the Republic in order to replace them with their own henchmen. During the past 3 days I have repeatedly emphasized in all of my conversations with these leaders and with the leaders of the groups and parties represented in the present Government that only through the maintenance of a constitutional form of government in Cuba until the next national elections would it be possible for the Government to make effective the urgent measures required to improve economic conditions here as well as the financial situation of the Government itself and in addition thereto to take steps to ensure the satisfactory result of the next elections through the enactment of a new electoral code and through the passage of constitutional reforms to be submitted to a constituent assembly. Furthermore, I have made it clear that a *de facto* government governing solely by decree would not in my judgment be able to retain the support and the confidence of the people for any protracted period owing to the unstable conditions which obtain in Cuba and that insistence upon a revolutionary *de facto* form of government would in all likelihood result in general chaos.

In an interview which I had yesterday with General Menocal I stressed my own belief, as above-indicated, and further made clear that we had continued official relations with the present Government of Cuba in view of our belief that whatever the cause of the change in the Government the result had been merely a change in the persons entrusted with the executive power of the Government through methods provided in the existing constitution. I told him that I felt it essential, as I knew my Government did, that in this moment of crisis all important leaders, of whatever faction they might represent, get together in support of the present Government and assist it in making effective, at the earliest possible moment, the program of reform, both political and economic, which it had already elaborated in principle. . . .

A portion of the press is coming rather timorously to the support of the necessity of maintaining a constitutional form of government in Cuba. None of the real leaders of public opinion have, however, as yet had courage enough to come out openly against the popular agitation for revolutionary government and a resultant clean sweep of all of the former officeholders no matter whether they were legitimately entitled to the offices they were holding or not. Until I can persuade some of these leaders to come out positively against any such policy, I am afraid to urge the Government to take the stand because of the fact that the opportunity might then be used by certain self-seekers to attack the Government on that ground to their own advan-

tage. I shall confer today and tomorrow with all of the outstanding leaders, including those recently arrived, and I shall hope to be able to persuade them of the necessity for prompt action along the lines suggested in benefit of Cuba.

WELLES

123C11/337 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 23, 1933—4 p. m.

[Received 4:33 p. m.]

181. The President of the Republic this morning informed me that the appointment of Caffery as my successor here would be most acceptable to the Cuban Government.³³

WELLES

837.00/3706 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 24, 1933—5 p. m.

[Received 8:30 p. m.]

184. I am rapidly coming to the conclusion that my original hope that the present Government of Cuba could govern as a constitutional government for the remainder of the term for which General Machado had himself elected must be abandoned. If the solid and unwavering support of the Army could be counted on, and if the groups and parties represented in the present Government were unanimous in their support of the administration, it might be possible for the existing Government to maintain itself, pass the necessary legislation of all kinds required, and hold the general national elections in November 1934 as originally anticipated. As a matter of fact, however, a general process of disintegration is going on. The Army is by no means in a satisfactory condition and the relapse in the health of General Sanguily, Chief of Staff and the one ranking officer in the Cuban Army who can command the support of his subordinates, has delayed the taking of the measures necessary to enforce discipline within the Army which he alone could have undertaken satisfactorily. The presence of General Menocal in Cuba is as always an exceedingly disturbing factor. His insatiable ambition and his unwillingness to recognize that he no longer can count on the support of any but a small group is causing him to attempt to undermine the authority

³³ It appears that this agreement was requested by the Acting Secretary of State over the telephone on August 22.

of the Government and I am reliably informed that he is trying to promote dissidence among the Army officers.

The inability of the Government as yet to enforce the maintenance of public order has permitted an almost anarchic condition throughout the country as the result of which groups of so-called students and radicals of every shade are breaking into houses, promoting lynchings, forcing resignations from Senators and Congressmen and other public officials and only this morning forced the resignation of the sub-Secretary of Communications recently appointed by President Céspedes. The labor situation is of course disquieting and while the most serious strikes in the cities have been settled, conditions on the large sugar plantations are very grave and it was only through the acceptance of all the demands presented by the strikers that destruction of the property and possible loss of life of the American manager and of his family was averted. If conditions such as this continue a general state of chaos here is inevitable.

The only alternative to such a result that I can now see is for the program of the present Government to be modified in order that general elections may be held approximately 3 months from now so that Cuba may once more have a constitutional government in the real sense of the word, that is, supported by an evident and overwhelming majority of the Cuban people. In order to accomplish this the Supreme Court will have to declare that the existing constitution under which General Machado was reelected is unconstitutional in that the constitution of 1928 came into being through illegal and unconstitutional methods as the result of which the country would once more be governed by the original constitution of 1901. I have every reason to believe that the Supreme Court will so hold. Once such a decision is rendered the existing Congress, to which public hostility is so intense that I doubt if it could meet even with military protection, would be *ipso facto* abolished. The President would then by decree convoke national elections to be held 3 months from such date and at the same time issue a decree declaring that the electoral law under which such elections would be held would be the Crowder code of 1919³⁹ as amended by the recommendations formulated by Professor McBain, in his recent report. The parties, under the terms of this law, would then be afforded the opportunity of organizing and presenting their lists of candidates and the entire Government, executive and legislative, would be replaced as the result of such elections. After the installation of such government a constitutional convention would be called to adopt the constitutional reforms agreed upon dur-

³⁹ For assistance of Maj. Gen. Enoch H. Crowder in the revision of the Cuban electoral laws, see *Foreign Relations, 1919*, vol. II, pp. 1 ff.

ing the mediation proceedings which reforms represent unquestionably the desire of a great majority of all elements of public opinion.

Yesterday I consulted with Colonels Mendieta and Mendez Peñate, Dr. Torriente, General Menocal, leaders of the ABC and other opposition organizations and with President Céspedes. There is not one of them who believes that the Congress as now constituted can again function. These leaders are now meeting with their own groups and I think will reach the conclusion that the program above-indicated is the one solution which offers a reasonably safe outcome for Cuba under present conditions. The President will call them into session with him tomorrow and will try and reach a unanimous agreement as to the program which his Government should carry out and the manner in which it is to be put into effect.

Conditions in the country of course are not ripe for general elections. I have likewise every reason to believe that during the electoral period, if the above program is carried out, disturbances will take place in many parts of the Republic. I feel, however, that a change in the policy which I had originally hoped to carry out is inevitable. I do not believe that the present Government can maintain itself in power for an indefinite period and I think that nothing would be more likely to prevent a further attempt at revolution than the prospect of elections in the near future. A solution of this character has the added advantage that it offers the hope of a constitutional and stable government in the near future rather than in the remote future and furthermore that negotiations for the commercial treaty can continue with the authorities now in power and that the individuals taking part in the next constitutional government will undoubtedly be willing to ratify beforehand any measures of financial relief that we may decide to suggest to the existing Government of Cuba.

WELLES

837.00/3716 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 25, 1933—11 a. m.

[Received 6 p. m.]

185. My 184, August 24, 5 p. m. In view of the urgency of the situation President Céspedes yesterday evening decided to carry out the policy indicated in my telegram under reference. He was advised to adopt this course by all of the members of his Cabinet and by all of the political leaders that have now returned to Cuba. During a Cabinet meeting which the President held last night the following decree was drafted which was handed to me at 4 o'clock this morning. The decree reads as follows:

["To the people of Cuba.

Whereas the Congress of the Republic in the exercise of the powers established in article 115 of the constitution resolved by the law of June 21st, 1927 to amend certain provisions of the constitution;

Whereas in the call of the election for delegates of the constitutional convention the laws by virtue of which the reorganization of political parties had been prohibited remained in force as well as that prohibiting the organization of new parties and other laws were enacted prohibiting the presentation of independent candidatures all of which legal provisions had no object other than to carry into effect the amendment to the constitution with absolute disregard of the popular will inasmuch as the electors opposed to said amendment were not able to elect delegates to aforesaid constitutional convention in manifest infringement of article 38 of the constitution which recognizes the right of suffrage to all Cubans over 21 years of age;

Whereas, the constitutional convention elected to that effect did not limit its acts to the approval or disapproval of the amendment voted by Congress in accordance with the provisions of article 115 of the constitution above-cited but overstepping its authority proceeded to change certain provisions of the law which contained the amendment;

Whereas, one of the provisions which was the one of modification was that by virtue of which the presidential term of office which should have expired on May 20, 1929, was extended for two years to May 20, 1931, and which, furthermore, prohibited the reelection of the President of the Republic then in office, the change consisting in permitting said chief executive to be reelected for the next presidential term;

Whereas, on May 11, 1928, the amendment of the constitution was promulgated by the President of the Republic, the same containing as has been said important changes in the text of the law which had been voted and passed by Congress;

Whereas, in the emergency electoral law of July 20, 1928, a series of provisions were included tending to assure the reelection of the person who at that time held the Presidency of the Republic and at the same time to prevent the presentation of other candidates for the same office which objects were achieved with absolute disregard of the popular will;

Whereas, the Supreme Court of Justice *en banc* in several decisions handed down in writs of unconstitutionality has recognized that the constitutional convention in altering the text of some of the provisions of the amendment law infringed the provision contained in article 115 of the constitution so often cited;

Whereas, all the illegalities and overriding of authority which have been mentioned constituted a *coup d'état* against the popular sovereignty and gave rise to an intense revolutionary agitation which obliged the Government constantly to maintain in suspense the individual guarantees and to appeal to all class of violence in order to appease the protests of the people;

Whereas, the good offices of the Ambassador of the United States of America to procure a solution to such an intense political crisis having been offered and accepted and the President of the Republic having refused to give performance to the essential obligations acquired by the

parties within the negotiations which were being carried on, the revolutionary state became more acute to such an extent that he was forced to resolve the abandonment of the power and withdraw from the national territory in use of a leave of absence at the same time leaving a full resignation of his office;

Whereas, by virtue of said leave of absence I have provisionally assumed the Presidency of the Republic;

Whereas, a large number of Senators and Representatives have presented the resignation of their offices and others have left the country without requesting a leave of absence;

Whereas, in view of everything that has been set forth above and with the object of reestablishing constitutional legality and restoring tranquility to the country, interpreting the popular will which is clearly manifested at this time throughout the country, conscious of the national conventionalities and of the transcendency of the measures I am adopting, with my thoughts placed on the founders of the nation and on the welfare of the Republic, and having heard the opinion of my Cabinet, I proceed to issue the following decree:

1st. The text of the constitution of 1901 is reestablished in its full force and effect and consequently the constitutional amendment promulgated on May 11th, 1928, remains null and without any value or effect.

2nd. Therefore, the mandate attributed to citizen Gerardo Machado y Morales as President of the Republic is hereby terminated.

3rd. The present Congress is declared dissolved and as a consequence the mandates of the Senators and Representatives as well as the rights of their substitutes to take their places are terminated.

4th. The offices of Justices of the Supreme Court filled after May 20th, 1929, are hereby declared vacant.

5th. The mandates of all the other officials of popular election are hereby declared at an end, nevertheless, those holding such offices at the present time shall remain in the discharge thereof until the Government shall order what it deems proper in each case.

6th. On February 24th, 1934, general elections shall be held for the filling of all offices which have their origin in popular suffrage, the new Presidential term of office to be inaugurated on May 20th of that year.

7th. An advisory commission shall be created charged with the proposing of the modifications considered indispensable to carry into effect the measures contained in this decree, and the recommendations of the said commission once approved in whole or in part shall be promulgated by the Executive.

8th. The Government shall respect and give fulfillment to all international obligations contracted in the name of the Republic even though they may be dated after May 20th, 1929.

9th. All the Secretaries of the Cabinet are entrusted with the fulfillment of this decree insofar as it may be pertinent to each of them.

Given at the Presidential Palace in Habana on August 24, 1933.
Signed Carlos Manuel de Céspedes, President. Signed Carlos Salasdrigas, Secretary of Justice and Acting Secretary of State."

For the reasons set forth in my telegram above referred to, I consider that the action taken by the Government is in the best interests of the Republic of Cuba. Furthermore, I believe that under the circumstances now existing it is calculated to promote stability and to quiet opposition.

Owing to the fact that three members of the Supreme Court were appointed during Machado's second term and that their appointments are consequently held to be illegal; that the President of the Supreme Court has resigned; and that one of the remaining members is seriously ill a quorum of the Supreme Court cannot meet for the time being. The Government has decided consequently to take upon itself the responsibility of declaring unconstitutional Machado's second term of office and not refer the constitutionality of that regime to the Supreme Court.

The eighth clause of the said decree which specifically announces the intention of the Government to comply with all of the international obligations entered into by the Cuban Government from May 20, 1929, until the present date should relieve anxiety on the part of American banks which have made loans or extended credits to the Cuban Government during that period.

The President will issue within the next few days a further decree containing the electoral code under which the national elections are to be held 6 months from now. It is the intention of the Government to adopt Professor McBain's suggested reforms in their entirety.

WELLES

837.00/3721 : Telegram

The Consul at Nassau (Hurley) to the Secretary of State

NASSAU, August 27, 1933—3 p. m.

[Received 4:50 p. m.]

Machado and party left by the steamship *Lady Rodney* last night, destination Montreal via Bermuda.

HURLEY

837.00/3739 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 30, 1933—11 a. m.

[Received 2:15 p. m.]

186. I was visited yesterday by a delegation of 30 of the most prominent American business men in Cuba. They expressed themselves as exceedingly disturbed by the social and labor unrest which is current

in Cuba and certain of them appear to be firmly of the opinion that Communist agitators "under the pay of Russia" are seizing this opportunity through the formation of unions and the promotion of syndicalism to plan the overthrow of the Cuban Government and the installation of a Communist regime.

It is true that during the past 2 weeks labor leaders, some of them foreigners, have been furthering unrest and have been responsible for the epidemic of strikes which have swept the Republic. I do not believe, however, that Communist theories as such have as yet any support among the laboring classes. The present situation, disturbing as it is and increasingly serious as it may become, is primarily due to the fact that the laboring classes have suffered under an absolute dictatorship for the last 3 years; that their leaders have been arrested and frequently assassinated; and that any organization of labor has been made absolutely impossible. Even more important is the fact that for the same period the average laborer on the plantations has been paid less than the minimum amount required to feed himself and his family and the conditions of distress and actual destitution which exist cannot be exaggerated. The field consequently is particularly ripe for agitation by labor leaders and for the formation of labor unions under the control of such leaders. The demands which have been presented on the sugar plantations by the delegates of the newly-formed unions have called for a living wage and an 8-hour day as well as recognition of the unions. In most instances these demands have been granted by the companies although many of the companies frankly state that they may be unable because of their own financial situation to carry out their promises.

In such cases where the demands have not been agreed to unruly mobs, frequently considerable in size, have been formed and while violence has until now been averted loss of life and destruction of property may take place at any time. The condition is so general that the military forces of the Government can only cope with the situation where the detachments are sufficiently large to inspire respect and as I have already informed the Department the discipline within the Army, while improving, is not yet sufficiently good to give the Government assurance that its orders will be complied with in every instance.

The only sure solution for a situation which otherwise may get beyond control is for the sugar companies to be able to commence work within the near future and offer their laborers sufficient to enable them to live and support their families. This, of course, is contingent upon the determination in the immediate future of the amount of sugar which Cuba can produce during the next crop year. This in turn depends on the agreement which is to be reached in Washington

as to the Cuban quota. If some fair adjustment is arrived at in the near future I believe the labor situation on the plantations will solve itself within a comparatively few weeks.

The situation in the cities while still precarious is more satisfactory. The American employers of labor are fearful of the formation of labor unions which the Machado Government made impossible. In certain exceptional cases where American companies have not during the past years cut down wages and have treated their employees fairly the demands now presented by the latter to their employers are preposterous and if insisted upon the companies will have to close their doors. In many other cases, however, the demands formulated are in my judgment reasonable and can be complied with. There is a very strong desire on the part of the Government to regulate the formation of unions by law in the near future so that the Government itself may act as arbitrator in disputes between foreign interests and their employees. This I think should be encouraged and many of the American interests represented here favor it.

While I recognize that a small number of foreign agitators are availing themselves of this opportunity to stir up strikes and labor unrest in general to their own profit and that if this policy is not checked by the Government serious consequences may ensue, I cannot see any indications of the "red menace" which certain Americans doing business here are fearful of. Immediate improvement of economic conditions in Cuba is a sure cure for the situation which now exists and I feel it obligatory for me to state to the Department that if the Government of the United States does not soon render friendly assistance in the determination of a fair sugar quota for Cuba and the formulation of other financing and economic recommendations such as those which I have proposed in previous telegrams to the Department a general chaotic condition throughout the country will probably arise which it will be much more difficult to put down than it would be to prevent.

WELLES

837.00/3740: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 30, 1933—noon.

[Received 2:30 p. m.]

187. The President has appointed this morning Dr. Horatio Ferrer, Secretary of War and Marine in the place of Captain Castillo Pokorny, who has been appointed Secretary of Agriculture and Commerce to fill the vacancy created by the appointment yesterday of Dr. Rafael Santos Jiménez as Mayor of the city of Habana. Owing to the continued illness of General Sanguily, Chief of Staff, General Armando

Montes, retired, has been brought back into active service to serve temporarily as Chief of Staff until General Sanguily is able to resume his duties.

The changes made hold the promise of an immediate improvement in the discipline of the Cuban Army. Dr. Ferrer was until recent years Surgeon General of the Army and has the confidence and support of the great majority of the armed forces.

WELLES

837.00/3747 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—1 a. m.

[Received 3:45 a. m.]

191. To be handed to the Secretary immediately upon receipt. At 10 o'clock tonight as the result of a concerted movement which apparently exists throughout the Republic the soldiers in the garrisons of Habana have deposed all officers and have declared themselves in control of the Army. The action taken has been fomented by the extreme radical elements. The subversive movement has been announced by radio from the various barracks and in all probability violent disorder will break out before morning. From latest reports from Santiago an identical situation exists there. The President who has been visiting the provinces affected by the cyclone is absent from the capital.

The Cabinet Ministers who were holding a Cabinet meeting to determine what action should be taken have abandoned the Palace fearing an attack. There is consequently no semblance of authority remaining. The Secretary of War has just telephoned me to state that there is no hope of solution in his judgment.

The extreme gravity of the situation is apparent. There will by morning in all likelihood be a complete collapse of government throughout the island. For the moment I recommend the immediate necessity of sending at least two warships to Habana and one to Santiago de Cuba at the earliest moment. The commanding officers of the vessels sent to Habana should receive the same orders as those issued previously and the commanding officer of the ship sent to Santiago de Cuba should be instructed to report to the Consul with whom I will be in touch. I anticipate a renewal of the general strike as soon as the public becomes aware of the Army situation.

Since telephone communication with Washington is interrupted I beg to request advice by rush cable of whatever action is taken in response to this telegram.

WELLES

837.00/3800

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba (Welles) September 5, 1933, 8:10 a. m.

The Ambassador began by stating that during the last two hours there had been a change of a kind in the situation. He stated that a revolutionary government had been set up, composed of the most extreme radicals in Cuba; that all military officers had been removed and a sergeant named Batista had been installed as Chief of Staff; that the city at the present was quiet, but that as to how long it would remain so was very doubtful.

The Ambassador requested that two armed vessels be sent to Habana at once and one to Santiago. In answer to questions he further stated that there was no chance to maintain the old government; that no government was possible without the support of the army. He stated that disorders due to radical activities were more or less prevalent, wherever his limited advices came from, over the island; but that information, however, was more or less sporadic on account of the destruction of communications by the storm.

The Ambassador stated that President de Céspedes and other officials would be in Habana at 11:00 o'clock and that he would keep me advised as to any developments resulting. He stated that it was very important that a battle cruiser be sent to Habana at once; that the small destroyers we were sending would be of some help in the meantime, but not of sufficient use. I inquired whether these destroyers should not stand off just outside the Habana harbor, lest irresponsible individuals might fire on such vessel if close in the harbor. Welles thought it should go on in. I inquired as to the extent of the revolution among the soldiers, and he replied that the chief portion of them were involved and that the army was thus under ultra-radical control, while radical citizens in different parts of the island were precipitating more or less disorder.

I requested the Ambassador to keep in mind the question as to whether it would be advisable for our government to seek the cooperation of the ABC governments of South America and Mexico, in the event conditions became so serious that intervention might be seriously threatened. He promptly stated that he would keep this phase in mind and be ready to discuss it if conditions made it necessary.

C[ORDELL] H[ULL]

837.00/3753 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—10 a. m.

[Received 3:25 p. m.]

192. My telegram No. 191, September 5, 1 a. m. All of the officers in the Habana Government have been forced to leave their posts by the non-commissioned officers and enlisted men. Some of the officers have been permitted to leave freely; some are detained in the barracks; and a few have been sent to the Army prison. Sergeant Batista has either named himself or been selected by the enlisted men at Camp Columbia as Chief of Staff of the Cuban Army. Major Boffil, Chief of Police of Havana has been jailed; Lieutenant Laurent who was imprisoned by Machado for complicity in a plot against his Government 2 years ago has been named Chief of Police in his place.

The troops in Habana have announced that the mutiny in which they are engaged is receiving the support of the troops throughout the Republic but on account of the difficulty of communication since the cyclone I am unable to confirm this. The American Consul at Santiago reports troops there remain loyal to constituted Government.

At 5 o'clock this morning a so-called revolutionary government was proclaimed and has made the following announcement:

"The revolutionary group of Cuba composed of enlisted men of the Army and of the Navy and of civilians belonging to various sectors headed by the university student group declares:

First. That it has constituted itself in order to carry out in whole the revolutionary program for which the great majority of the Cuban people is contending and will continue to contend within ample lines of modern democracy and based upon the pure principles of national sovereignty.

Second. This program in brief is as follows:

1. Economic reconstruction of the nation and political organization on the basis of a constitutional convention to be held immediately.
2. Immediate elimination and full punishment of all those responsible for the previous situation both in civilian life as well as in the Army without which the reestablishment of real order and authentic justice is impossible, protecting at the same time the life and property of nationals and foreigners.
3. Strict recognition of the debts and obligations contracted for by the Republic.
4. Immediate constitution of adequate courts to insist upon the responsibilities above mentioned.
5. Reorganization within as brief a period as possible of all services and national activities obtaining a rapid return to normality.

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6. Finally to take all of the measures not foreseen in this document in order to commence the march towards the creation of new Cuba founded upon an immovable foundation of justice and of the most modern conception of democracy.

Third. Believing that the actual government is not responsive to the urgent demands of the triumphant revolution notwithstanding the good faith and patriotism of its members, the revolutionary group of Cuba takes charge of the reins of power as a provisional revolutionary government which will resign the sacred trust conferred upon it by the people as well as the Constitutional Assembly which is to be convoked to the constitutional government which will guide our destinies until the first general elections.

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This provisional government will issue decrees and regulations which will have the force of law before the people of Cuba and with the unquestioned support of the people of Cuba, which we greet in the name of liberty and justice. This new government will march forward fully guaranteeing the stability of the Republic and will operate in accordance with existing treaties confident that Cuba will be respected as a new sovereign nation which arises full of vigor to take part in international life".

This proclamation is signed by Sergeant Batista who adds the title of "Sergeant and Revolutionary Chief of all the Armed Forces of the Republic" and is likewise signed by a group of the most extreme radicals of the student organization and three university professors whose theories are frankly communistic. Five of the signatories of this proclamation have constituted themselves an executive committee to govern the Republic and have announced their intention of taking possession of the Palace during the course of this morning.

President Céspedes will arrive in Habana about 11 o'clock. The members of his Cabinet are now in session at the house of one of the members and a group of them will come to the Embassy to see me in an hour's time. I feel it inadvisable for me to make any specific recommendations until I have had an opportunity of talking with President Céspedes and his Cabinet.

The situation in the city this morning appears to be quiet. I repeat that it is urgently necessary in my judgment, however, that two destroyers arrive here at the earliest moment possible and that a battleship likewise be sent. As stated in my previous telegram a warship should be sent to Santiago without delay. It is very likely on account of the serious labor agitation which had existed already that additional vessels should be sent to other ports to guarantee the safety of American lives. I shall so recommend if I later believe it necessary.

I wish to make it emphatically plain that I shall do my utmost to prevent in every possible way the necessity of any armed intervention by the United States. Since such a step, however, may have later to be taken by our Government I strongly urge the desirability now of

explaining the Cuban situation fully to the representatives of all of the Latin American Republics. It appears hardly likely that a so-called revolutionary government composed of enlisted men of the Army and radical students who have occupied themselves almost exclusively during the last 10 days with the assassination of members of the Machado Government can form a government "adequate for the protection of life, property and individual liberty". All of the important leaders of the existing political parties in the Republic notably the Unión Nacionalista and the A B C are definitely hostile to this movement and it is highly problematical how many hours or days will elapse before violence and open dissensions take place throughout the Republic.

WELLES

837.00/3750 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—11 a. m.

[Received 12:45 p. m.]

193. Sergeant Batista accompanied by Sergeant Santana called to see me at the Embassy. . . . Neither of them seems to have any clear conception of what the movement of the soldiers and non-commissioned officers is responsive to. The purport of their visit was to ascertain what my attitude was towards the so-called revolutionary group and whether the installation of a government headed by this group would be favorably regarded by the Government of the United States. I replied that I had no comment to make.

I inquired what steps they had taken to preserve the maintenance of public order in Habana and while in their reply they proffered most ample assurances it was made quite plain that no measures whatever had been taken in that sense beyond the stationing of soldiers outside of the foreign embassies and legations and the foreign banks. I concluded by stating that I would be glad to see them at any time they wished to call here.

WELLES

837.00/3751 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—noon.

[Received 1:45 p. m.]

194. The Secretary of War Dr. Ferrer has just left me. He advises me that he has just held an interview with the members of the ex-

ecutive committee of the revolutionary group and has advised them that the entire Cabinet of President Céspedes would proffer their resignations if the revolutionary group would support President Céspedes and enter his Cabinet. The reply was given that President Céspedes had already been deposed and that the revolutionary group was in control of the Republic.

Dr. Ferrer informs me that at the Cabinet meeting which President Céspedes will have immediately after his arrival in Havana at 11:30 his Cabinet will advise him to make no effort to maintain himself in power since all of the armed forces of the Republic are in mutiny and he can count on only moral support which is not effective in this moment.

I have called for 12:30 a meeting of the following leaders: Colonel Mendieta, Colonel Mendez Peñate, General Menocal, Dr. Miguel Mariano Gómez, Dr. Martínez Saenz, and Dr. Saladrigas. I shall advise the Department immediately by telegraph of the result of my interview with them.

WELLES

837.00/3757 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—4 p. m.

[Received 5:05 p. m.]

195. At 1 p. m. the Céspedes Cabinet resigned and President Céspedes left the Palace to go to his own house. Very little disorder took place. Immediately thereafter the Committee of five members of the revolutionary group took possession of the Palace as the executive power of the Cuban Republic. The members of the Committee are the following: Sergio Carbo . . . ; José Miguel Irizarri, a radical of the extreme type who is a law partner of General Menocal's son-in-law; Professors Guillermo Portela and Grau San Martín of the University of Habana, both of whom are extreme radicals; Porfirio Franca, a supposedly conservative business man of good reputation who is being used as window dressing.

Immediately before the transfer of power at the Palace I had the conference with the political leaders referred to in my telegram No. 194, September 5, noon. I explained to them my own view of the situation and suggested that through consultation among themselves they determine whether they can devise any plan to prevent the utter break-down of government which in my judgment is inevitable under the present regime. They agreed to do so although with some reluctance on the part of General Menocal and arranged to return to the Embassy at 5 o'clock to advise me of their decisions.

WELLES

837.00/3764

Memorandum of Telephone Conversations Between the Secretary of State and the Ambassador in Cuba (Welles) on September 5, 1933, 5:30 p. m., and Between the Assistant Secretary of State (Caffery) and the Ambassador in Cuba (Welles), 6:15 p. m.

SECRETARY: How are things coming along by this time?

AMBASSADOR: I think that the situation is gradually getting worse. I have had a conference with the political leaders of the Republic and they are of the opinion that it would be wise to land a certain number of troops from the American ship. It would be my idea that what we would do in that case would be to have a certain number come to the Embassy as a guard and a certain number to the National Hotel. It would not imply any patrolling of streets or anything of that kind. The difficulty is that we have only 50 men on the *McFarland*, which is now in port, to be brought ashore. That number is not sufficient to make it wise to bring them ashore. Is the *Richmond* arriving tomorrow?

SECRETARY: I do not think it can get there before tomorrow morning. That is, the *Richmond* from the Canal Zone. There is no other battleship on the way just yet. We can take this matter up and have a conference about it. How would we define our policy that would contemplate what you suggest?

AMBASSADOR: Our policy would simply be on the ground of protection of the American Embassy and the protection of American nationals.

SECRETARY: Have you any other suggestions?

AMBASSADOR: The political leaders say that a government will be restored with the support of all the army officers, but this can only be accomplished with the aid of an American guard and the present small number of our men offshore is insufficient.

Conversation resumed at 6:15 o'clock between Mr. Caffery and the Ambassador:

AMBASSADOR: I think that it is absolutely indispensable that men be brought from the ship to the Embassy and to the hotel. A crowd is gathering in front of the Embassy now and there is no protection whatever except a few policemen we have in the Embassy building. I am not at all certain what will happen before very long if we do not have any men here.

MR. CAFFERY: You have no guard there?

AMBASSADOR: No guard anywhere. There is absolutely no semblance of order of any kind. I could not hear whether the Secretary said the *Richmond* is arriving tomorrow.

MR. CAFFERY: No, the *Richmond* is not due to arrive until Thursday—I think in the early afternoon.

AMBASSADOR: What time does the *Bainbridge* get here? Tomorrow, in the early afternoon?

MR. CAFFERY: Not early—I think, late afternoon. Now the *Mississippi* is on the way. She is 32,000 tons.

AMBASSADOR: The situation is increasingly serious here. What time will the *Mississippi* get here?

MR. CAFFERY: She cannot make it under three days. She is at Hampton Roads.

AMBASSADOR: I have just had another meeting with the political leaders and they seem to be all of the opinion that the only possible way is for a temporary landing of possibly a thousand men until a new government can be restored with the cooperation of all them—with all of the officers who are loyal to constitutional government and who have not gone over to the other side.

MR. CAFFERY: It is better to cable the whole thing. We miss words.

AMBASSADOR: All right. This evening I think we will have some men come from the *McFarland* to the Embassy and the hotel.

MR. CAFFERY: Have you seen anything more of the soldiers? Or the radical element who were allied with them?

AMBASSADOR: There is absolutely no evidence of any intention to maintain order. The soldiers are going anywhere that they want and pay no attention whatever to anyone's objections.

MR. CAFFERY: But you have not seen them any more yourself.

AMBASSADOR: No, not since the revolutionary group took over control of the Palace.

MR. CAFFERY: Only two of them came to see you this morning.

AMBASSADOR: Those two are supposed to be the head people, but I have heard nothing from them since. I will cable fully.

MR. CAFFERY: The Secretary, who is here now, asks if you know whether they have any intention of trying to see you again.

AMBASSADOR: I am unable to hear what you say.

(Note:—The last paragraph was repeated several times, but the Ambassador was unable to understand what was said.)

837.00/3764

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba (Welles), September 5, 1933, 7 p. m.

SECRETARY: I was just talking with the President and he agrees of course that if you or any of your folks in the Embassy are in physi-

cal danger, you should call on the commander to send all possible aid to you ashore.

AMBASSADOR: All right.

SECRETARY: But if you are not in physical danger, we are inclined to the opinion here that such a small number sent ashore might provoke trouble rather than quiet trouble.

AMBASSADOR: I understand that perfectly. I am quite in accord. I have not sent for them and am not going to unless I consider it absolutely necessary.

SECRETARY: By the time the battleship, the *Mississippi*, gets down there, and it is on its way, we can work out some of these other matters. But if we just have fifty men there for the moral effect and not necessarily to protect the Embassy from physical violence we agree with you that it would probably be inadvisable and that we should work out a broader policy on that question.

AMBASSADOR: I quite agree and I do not want to do it unless I cannot possibly help it. And only in an emergency to keep the embassy from being entered.

SECRETARY: Are the *de facto* people doing anything to restore order?

AMBASSADOR: I have one in the embassy now talking to me about it.

SECRETARY: I would make very sweeping demands upon them to protect the embassy and all foreigners.

AMBASSADOR: I am doing that, but as you understand it is absolutely impossible for them to attempt to control things.

SECRETARY: We will keep in touch with you in every way possible.

AMBASSADOR: Thank you so much. I will not take any steps of that kind unless I believe it absolutely indispensable.

SECRETARY: Unless there is physical danger to you folks in the Embassy.

837.00/3756 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 5, 1933—9 p. m.

[Received 11:20 p. m.]

199. At 5 o'clock my meeting with the political leaders, referred to in my telegram 195, took place at the Embassy. It was attended by all those present in the morning with the exception of General Menocal who sent word that he had no concrete solution to propose as yet. The opinion expressed by all was that the only possibility of avoiding American intervention was for the installation of a government composed of the chiefs of all of the political groups. Before Colonel

Mendieta's arrival the other leaders stated that Colonel Mendieta was by far the most acceptable man as head of the new government. Investigation had proved that the officers of the Army had refused to enter into any conversations with the present revolutionary group in control but would support any representative government such as that proposed.

It was the unanimous opinion that the enlisted men in great part would be loyal to their officers if they could be free from the control of the non-commissioned officers. It was the unanimous opinion likewise that the only way in which a government of the character proposed could be maintained in power, until a new Army could be organized under the Cuban Army officers, was for the maintenance of order in Habana and Santiago de Cuba and perhaps one or two other points in the island by American Marines. They were emphatic in their declaration that the present revolutionary group could not remain in control for more than a few days and would be then in turn forced to give way to an out and out Communist organization.

The tentative project as outlined to me is not as yet entirely satisfactory, as many important details have not been determined upon. I shall be advised later tonight what the final decision may be.

Conversations have likewise been held this evening between the leaders of the Unión Nacionalista Party, Doctor Gómez and the two more Conservative members of the revolutionary group in control of the government, namely, Messrs. Grau San Martín and Franca, to ascertain whether the latter would agree to enter the government of concentration proposed. The tentative proposal appears to have been rejected.

Doctor Grau San Martín has just called to see me and I have impressed upon him the fact that my Government would require of any government in Cuba the protection of life and property of American citizens. He is utterly impractical and appears to be obsessed with the idea that the soldiers are so devoted to the ideals of the "revolution", as he terms the mutiny, that they will take it upon themselves without any orders to maintain order and to guarantee life and property. He did say, however, that an attempt would be made to persuade the lower-ranking officers of the Army to support the group in control of the government and in that event they would be reinstated in their former positions.

WELLES

837.00/3787

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba (Welles), September 6, 1933, 10 a. m.

SECRETARY: How is everything looking?

AMBASSADOR: I had four hours of sleep last night and I feel somewhat better.

SECRETARY: How are conditions?

AMBASSADOR: There was some trouble in the city last night, but not as bad as might have been expected. I think the presence of the destroyer did a great deal to prevent more disturbance. The situation in the interior seems to be becoming very serious and while Santiago during the early night was quiet, there is no word as to what happened after midnight.

SECRETARY: Have you any new suggestions over the telephone or not?

AMBASSADOR: I think I had rather keep those in the cables, Mr. Secretary. I have gone into full detail in the cable I am sending you now.

SECRETARY: We have been discussing this last evening and this morning as best we could. It seems to us that the whole thing down there revolves around the army, and the question comes up with us as to whether the landing of men before we are absolutely compelled to do so—if we should land a thousand men there—it would in all probability mean intervention, and while we will not hesitate to go in if compelled to, we do not want to unless compelled. Because if we have to go in there again, we will never be able to come out and we will have on our hands the trouble of thirty years ago. We feel that if conditions would justify your continuing your present and past policy of absolute neutrality towards each group and especially towards the group in power, keeping their confidence and goodwill as you have with each group in the past, that that would give the Cubans themselves all the more opportunity to do something, to take steps to preserve some degree of law and order. Then when the crisis has passed there would be an opportunity to reorganize the present army to whatever extent they might feel would be helpful, as that cannot be done on short order if undertaken and if considered desirable. Now if in the meantime some of our American friends should get unduly alarmed, we might consider dropping submarine destroyers in at such ports as Guantanamo, Santiago and Cienfuegos for the time being. Everything is revolving around the army now and if they were to receive some cooperation from the different leaders, whether they are immediately a part of the army or not but had liberal ideas, that would be very helpful. At a distance several of us are wondering how long any group of leaders representing each faction even would stay in power if they were put

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in, in view of the experience of Céspedes and those people, and that means the army, as now constituted, for the time being is in supreme control.

AMBASSADOR: I am in full accord with what you say.

SECRETARY: I am just getting these facts before you for what they may be worth, because we have implicit confidence in your judgment and in your ability to keep yourself ingratiated with all groups while we are giving Cuba and the dominant forces in it an opportunity to work out of the snarl or to take such steps as would make intervention by us unnecessary. I do not know whether I have said anything at all which would fit in there according to your judgment, but I wanted to get these things before you.

AMBASSADOR: I agree absolutely with everything you have said. One or two members of the present group in power I know and one was here with me for an hour and a half last night. I will be in touch with them constantly, but for the time being we ought not even to consider recognizing any government of this character, in my opinion.

SECRETARY: Until it has shown its ability to preserve law and order.

AMBASSADOR: What they want is an expression of opinion from me and I have refused to give any opinion whatever except to insist on the maintenance of order.

SECRETARY: It is natural that from their viewpoint they would be urging us, just like our Chamber of Commerce friend last night, to rush in and intervene. But of course you and I are keeping our eyes on the other side of the thing as well and we can only hope that those people will be patient and give such cooperation as the dominant forces are willing to receive. Have you anything further to suggest or to say over the telephone?

AMBASSADOR: No. I had rather have the suggestion come to you in cable form.

SECRETARY: We will keep in touch with you by cable and over the telephone.

AMBASSADOR: I will keep you informed all the time during the day.

837.00/3767: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 6, 1933—1 p. m.

[Received 4:20 p. m.]

202. I had a further meeting at 11 o'clock last night with the political leaders mentioned in my telegram 199, September 5, 9 p. m. I told them that upon careful consideration the basis of the proposal outlined to me by them, as reported in my telegram referred to, appeared to me undesirable inasmuch as it required the Government of the

United States to assume responsibility for the maintenance of order in Cuba through the presence on Cuban territory of American armed forces whose number would not be determined in advance and the length of whose stay in Cuba might be for a protracted period. I further said that in my judgment action of this kind by the United States would constitute intervention even though limited in scope and intention and would be considered as intervention by the Cuban people and by the other nations of the world. I concluded by stating that I felt that the Cuban people themselves should make every possible effort to solve their own problems through their own agencies and that if we landed forces here to help install a new government we would be justly accused of overthrowing the present regime.

As the result of my conversation the political leaders referred to had a further conference with Messrs. Grau San Martín and Franca. They then returned to see me at 1 o'clock this morning. They told me that they had advised these members of the revolutionary group in control of the government that in view of the fact that the group now in control had announced for government, program of government [*sic*] almost identically the same points as those agreed upon by the Céspedes government they and their followers would agree to lend support to the present government provided that the revolutionary group was able to maintain order. They stated that in their opinion this was indispensable. Dr. Gómez and Colonel Mendieta further informed me that they had been assured that the revolutionary group desire to reappoint all of the junior officers of the Army up to and including the rank of Major in the course of the next 24 hours except in those instances where charges of crime had been preferred against them.

At approximately the same time the leaders of the ABC informed me that they had issued a statement announcing their intention to support the program of the revolutionary group but otherwise maintaining an attitude of "watchful waiting". In this manner the leading political forces of the country have made clear their intention not to attempt for the present to overthrow the present regime and to support the program for a constitutional assembly and for national elections.

I feel confident that the policy we have adopted during the past 2 days is the correct one. The presence in the harbor of Habana yesterday afternoon of an American destroyer and the announcement which the local newspapers made much of that three other American warships were on their way to Cuban waters has had a very sobering effect and has been highly useful in preventing untrammelled disorder. I have made it perfectly clear to the members of the present regime that my Government will insist upon the maintenance of public order and the protection of foreign life and property. At the same time I have stated emphatically that the United States had no intention of inter-

vening provided life and property were fully protected. There is not one political leader with whom I have talked who did not of his own initiative suggest the despatch of American warships and for the Department's confidential information the leaders of even so radical a group as the ABC urgently requested me yesterday afternoon to insist that the Department authorize the landing of American Marines both in Habana and in Santiago. The local press without exception is commenting favorably on the attitude assumed by the United States Government.

For the moment therefore the situation in Habana appears to be slightly more favorable than it did yesterday in so far as for the time being the early desire of the powerful political groups to overthrow immediately the present regime has been avoided. As an indication of this intention yesterday afternoon at 2 o'clock a group of 1500 members of the ABC, fully armed, assembled in the headquarters of the organization with the intention of leaving immediately for Camp Columbia in order to take possession of the barracks there by force. They were only prevented from doing so by the personal influence over them of Dr. Martínez Saenz. If this action had been taken there would have been in all probability house-to-house fighting throughout a greater portion of the city last night.

The situation is such that in my opinion it is impossible at this time to attempt to lay down any specific policy other than the determination by us to avoid any act of intervention if life and property can be guaranteed. I feel that it would be decidedly prejudicial even to consider official recognition by the United States of this regime, certainly for some time to come. The government of Cuba today is an undisciplined group of individuals of divergent tendencies representing the most irresponsible elements in the city of Habana with practically no support whatsoever outside the capital. The attitude adopted by the major political organizations may keep things quiet for a time. For the moment I feel the only policy we can adopt is to solve each problem as it is presented in the light of immediate circumstances.

WELLES

837.00/3942

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] September 6, 1933.

At my request the following came individually to see me today:

The Minister of Guatemala, Dr. Recinos,
The Minister of the Dominican Republic, Mr. Despradel,
The Minister of Paraguay, Dr. Bordenave,

The Minister of Honduras, Dr. Paz,
 The Minister of Haiti, M. Bellegarde,
 The Chargé d'Affaires of Costa Rica, Mr. González,
 The Chargé d'Affaires of Nicaragua, Dr. Debayle.

The Secretary of the Peruvian Embassy, Mr. Mendoza, the Ambassador being absent,

The Secretary of the Venezuelan Legation, Mr. Rivero, the Minister being absent,

The Secretary of the Panamanian Legation, Mr. Chevalier, the Minister being absent.

I explained to each of the foregoing gentlemen the situation in Cuba. In brief, I spoke of the condition which arose in Cuba a few weeks ago which had made it necessary for us to send some destroyers there. I said that at that time we had taken particular care to make our position clear, to the effect that there was no thought of intervention or interference with Cuban political affairs, but that the ships were sent to Cuba for the purpose of protecting American lives. The situation had cleared up at that time and the ships were withdrawn. Unfortunately, a new situation had now developed in Cuba, which appeared very serious, and we again found it necessary to send ships there for the purpose of protecting Americans if this should be necessary. I said that we attached great importance to the opinion of the Governments and people of the Americas and for this reason was explaining the situation and again desired to make it clear that we were not contemplating intervention or interference in Cuban affairs, but that our most sincere hope was that the Cubans would themselves work out a Cuban solution of their difficulties.

I received a very sympathetic response from all the above-mentioned gentlemen. In particular, the Ministers of Guatemala, Paraguay and Honduras expressed their full appreciation of the attitude of this Government towards Cuba, said that of course the United States had a right to intervene, and that they thought our effort to avoid intervention and to let the Cubans work out their own problems was making a fine impression in Latin America. All of these diplomatic representatives stated that they would inform their Governments at once of the conversation. They all appeared to appreciate being informed.

EDWIN C. WILSON

837.00/3771 : Telegram

The Chargé in Guatemala (Lawton) to the Secretary of State

encouraging intervention

GUATEMALA, September 6, 1933—7 p. m.

[Received 10:30 p. m.]

23. Minister of Foreign Affairs requested me this afternoon to inform you that President Ubico feels the Cuban situation is exceedingly

grave principally because of communistic tendencies. Consequently, he is of the opinion that American intervention is essential to preserve order and insure establishment of constitutional government.

LAWTON

837.00/3772 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, September 6, 1933—9 p. m.

[Received September 7—12:05 a. m.]

178. Have just conferred with Puig at his request. Government here is seriously disturbed over fear of intervention in Cuba. Puig says he knows the four men composing junta are educated men with good background and no taint of Communism. He believes that they will organize good government. Mexican Government believes new order should be given sympathy and help. Puig believes and I concur that intervention would impair Pan American friendly relations and might in advance destroy the hopes in connection with the Montevideo Conference. If situation in Cuba demands outside action I strongly urge that Mexico and ABCP countries⁴⁰ of South America be asked to cooperate in restoring peaceful conditions and giving Cubans help in setting up a stable government.

DANIELS

837.00/3775 : Telegram

The Mexican Minister for Foreign Affairs (Puig) to the Secretary of State

[Translation]

MEXICO, September 7, 1933.

[Received 8:26 a. m.]

As information supplementary to the verbal communication that our Chargé d'Affaires, Mr. Padilla-Nervo must have made this afternoon to Assistant Secretary Mr. Caffery, I take the liberty of advising Your Excellency that we have accurate data concerning personality at least four persons who are serving as members of the Executive Commission of the new government of Cuba, data indicating that they are not Communists, but persons of undoubted preparation, intellectual capacity and social responsibility. Mr. Guillermo Portela, who is Commissioner of Foreign Relations in the new government, is professor of criminal law, a scientist of standing, with ample financial resources, of high social position, and who, as soon as the

⁴⁰ Argentina, Brazil, Chile, and Peru.

university problem arose, distinguished himself as an opponent of President Machado. Dr. Ramón Grau San Martín, Commissioner of Public Instruction and Health, was Dean of the Medical Faculty, with non-Communistic ideas, (was) also distinguished in the university opposition to President Machado, and until recently an exile in your country. Porfirio Franca, Commissioner of Finance, may be considered as one of the best prepared men in Cuba for that position, with the highest connections in the best banks, a man of means, of no communistic views or antecedents. Mr. Carbo, Commissioner of Gobernación, Commerce and War, was some years ago Consul of his country; he has been and is manager of the periodical, *La Semana*. There could be no basis for the supposition of his communist affiliations due solely to the fact of (his) having visited in Moscow and then written a book on Russia that is strictly literary. He was leader of the revolutionary movement against President Machado in 1931. In the interest of the solidarity of the American continent and with the lofty purpose of bringing about *rapprochement* in every way we deem it our duty to submit these facts which we know to the consideration of the Department of State particularly in view of the cordial attitude of that Department in transmitting to the Government of Mexico, through Mr. Caffery, explanations of the situation in Cuba and proposals of your Government to continue its observation, assuring us that the sending of ships does not mean intervention in Cuba.

Accept [etc.]

J. M. PUIG CASAURANG

837.00/3775 : Telegram

*The Secretary of State to the Mexican Minister for Foreign Affairs
(Puig)*

WASHINGTON, September 7, 1933.

I greatly appreciate Your Excellency's courteous telegram and your kindness in furnishing me the information therein contained. As President Roosevelt and Mr. Caffery said yesterday to Mr. Padilla-Nervo in informing him of the situation in Cuba, we have sent ships to that country solely as a precautionary measure and there is not the slightest intention of intervening or interfering in Cuba's domestic affairs.

It is our fervent hope, which I am sure Your Excellency shares, that the Cubans themselves will work out in a peaceful and orderly manner a Cuban solution of their own difficulties. Certainly no one in the world will be more relieved and thankful than I if this takes place.

Please accept [etc.]

CORDELL HULL

837.00/3778 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 7, 1933—noon.

[Received 4:10 p. m.]

206. Late last night Dr. Horacio Ferrer, Secretary of War in the Céspedes Cabinet, called to see me. He told me that he had spent the preceding 24 hours in continuous conferences with political leaders of all the groups which had supported the Céspedes Government and that the plan which he would outline to me met with the approval and support of all of them. He told me that he had been in touch with the sergeants in control of the Fortress Cabaña; that they realized that they had been deceived in participating in the mutiny and that they were prepared to make any reparation for their action. They had prepared a written communication in this sense addressed to President Céspedes. Dr. Ferrer stated that he had arranged with them that they should request of the revolutionary group, which is now attempting to persuade the officers to resume their positions, the reappointment of Major Cardenas the former Commander of Cabaña and all the former subordinate officers in whom Dr. Ferrer states he has implicit confidence; that as soon as these preliminary measures had been taken Dr. Ferrer accompanied by a group of some 80 loyal officers would proceed tomorrow, Friday, night to Cabaña Fortress with President Céspedes and several other members of his Cabinet and that early Saturday morning he would proclaim the support of Cabaña Fortress to the legitimate Government of President Céspedes. He informed me that the Fortress was impregnable and that there was both food and water and sufficient ammunition for them to hold out if necessary for a period of at least 2 months. Doctor Ferrer assured me that all of the soldiers and non-commissioned officers in La Cabaña would be loyal to him but that should there be any few disloyal individuals they would be immediately ejected. He stated that he had already been in touch with the officers of the military forces of Matanzas and Piñar del Río as well as in other portions of the Republic and that as soon as the proclamation from Cabaña has been issued the loyal troops and officers throughout the country would make a simultaneous proclamation. He was confident that within a very brief period the present regime would be overthrown.

He inquired whether, should this action be taken, and should the Céspedes Government make such request the Government of the United States would be willing to land troops from the battleships now due to arrive at Cojimar, immediately to the east of Cabaña Fortress, in order to assist the Céspedes Government in maintaining order. He stated of his own initiative that he fully understood my position and that of my

Government and that he wished merely to inform me of the plans which he had made without expecting or desiring any assurances of any character from me, and that he would follow through the plan he had in mind no matter what action the United States Government might take.

I told him I deeply appreciated his advising me of his intentions; that of course, as he stated, it was impossible for me to participate even tacitly in the elaboration of his plans; and that I could make no commitments to him at this time with regard to the landing of American troops.

Dr. Ferrer stated that the Céspedes Government was still the constitutional and recognized Government of Cuba; that President Céspedes had left the Palace through *force majeure* and had accepted the declaration of the revolutionary group that he had been "deposed" since he had no armed forces to keep him in power but that he had not resigned either orally or in writing.

If the plan formulated by Dr. Ferrer were carried out successfully I desire to lay the following considerations before the President and yourself. The Céspedes Government came into power through constitutional procedure and was immediately recognized by all of the nations having diplomatic relations with Cuba including the Latin American Republics as the legitimate Government of Cuba. The President and his Cabinet have not voluntarily resigned but have had to give in in the face of a mutiny in the Army. If the legitimate and recognized Government of Cuba can make an effective demonstration of its intention to reestablish itself, it would most decidedly appear to me to be in the best interest of the United States Government to afford them immediate support. Any solution of this character is more advantageous to our interests and to our policy than full intervention and the possible necessity of an American Military Government. What I purpose would be a strictly limited intervention of the following nature:

The Céspedes Government should be permitted to function freely in exactly the same manner as it did until the time of its overthrow, having full control of every branch of the Government. It is obvious, of course, that with a great portion of the Army in mutiny it could not maintain itself in power in any satisfactory manner unless the United States Government were willing, should it so request, to lend its assistance in the maintenance of public order until the Cuban Government had been afforded the time sufficient, through utilizing the services of the loyal officers of the Cuban Army, to form a new Army for which it would possess a nucleus in the troops which are still loyal and detachments of the rural guard, most of whom have not come out in support of the present regime. Such policy on our part would presumably entail the landing of a considerable force at Habana and lesser forces in certain of the more important ports of the Republic.

If through the lending of a police force to the legitimate Government of Cuba for a comparative brief period we can assist the Céspedes Government to function, in all probability the Constitutional Assembly and the national elections which the Cuban people unanimously desire, could be held within less than a year's time with the result that a new constitutional Government in Cuba would come into power and by that time there will be functioning a Cuban Army capable of maintaining that Government in power and guaranteeing life and property and public order.

The disadvantages of this policy as I see them lie solely in the fact that we will incur the violent animosity of the extreme radical and communist groups in Cuba who will be vociferous in stating that we have supported the Céspedes Government because that Government was prepared to give protection to American interests in Cuba and that our policy is solely due to mercenary motives. It is worth emphasizing, however, that we always have had and always will have the animosity of this group and that the adoption of the measures above-indicated will merely offer them an excellent opportunity for attack. Consequently, since I sincerely believe that the necessity of full intervention on our part is to be avoided at all hazards, the limited and restricted form of intervention above outlined would be infinitely preferable. When the recognized and legitimate government of a neighboring republic, with which republic we have special contractual obligations, is confronted by mutiny in the army and can only maintain order and carry through its program of holding elections for a permanent constitutional government through the assistance of an armed force lent by the United States as a policing power, it would seem to me to be in our best interests to lend such assistance, and it would further seem to me that since the full facts of the situation here have been fully explained to the representatives of the Latin American countries, the landing of such assistance would most decidedly be construed as well within the limits of the policy of the "good neighbor" which we have done our utmost to demonstrate in our relations with the Cuban people during the past 5 months.

If Dr. Ferrer's plan is carried through immediate action by us will undoubtedly be required if such action is to be of any effective assistance. I consequently request instructions from the President and yourself at the earliest possible moment in order that I may be fully prepared to carry out such instructions whom [when?] the appropriate moment arrives.

WELLES

837.00/3852

The Cuban Embassy to the Department of State

[Memorandum—Translation]

In the conversation carried on to-day at one o'clock p. m. with the Assistant Secretary of State, Mr. Caffery, the Ambassador of Cuba, authorized by the Executive Commission of Government, set forth the following points:

First. The new Government of Cuba does not correspond to trends of a Communistic character; neither are the members composing it Communists. The suspicion that has arisen to that effect is due to the junta form of government which was adopted with the intention of protecting it from intimate political complications which do not affect the nature of the provisional regime.

Second. The elements composing the Executive Commission are not Communists nor were they the originators or leaders of the movement which placed them in the exercise of public power. The leaders of the movement, demonstrating exceptional disinterestedness, did not appropriate for themselves the fruits of the victory, and taking as their aim the greatest advantages of the country, entrusted the function of government to the persons whom they considered fitted for the mandate.

Third. At the present moment order is being preserved throughout the Republic. The disorders that have taken place since the 4th instant have been of less importance than those which occurred under the preceding administration. And the events that transpired in some sugar centers, are not the consequence of the political and economic character of the present regime, but a continuation of the disturbances, of that kind, which were happening under the authority of the Government which terminated on the 5th.

Fourth. For the purpose of restoring the discipline and authority of the Army, the Executive Commission has decided to reestablish, and is reestablishing the commanders and officers of all arms to their corresponding grades and commands. In addition to the respect that the whole country is showing the Executive Commission, the reintegration of the Army which is being accomplished with all possible speed, permits of the assurance that the life, property and liberty of the citizens are receiving full protection in the Republic.

Fifth. The idea that the Executive Commission is the result of the *coup* of a faction which can give it only a precarious and ephemeral existence is derived from vague reports, that are often exaggerated, with respect to the true situation now prevailing in Cuba; but it loses all appearance of reality by the fact of its having been put in contact with all sectors of those who were in opposition to the dictator-

ship, in order to form a strong cabinet of National Concentration in which there are truly represented all the militant groups that fought for the purpose of restoring in the Republic, right, civil liberties, the laws and the honor of the people as an homage to civilization. The Executive Commission, dedicated today to the accomplishment of this powerful coordination of legitimate desires and aspirations, for the welfare and prosperity of Cuba, trusts that before the dawn of tomorrow the said Cabinet, the task of which is to clothe the Government with the sublime confidence and the full representation of the Cuban people, will have been constituted.

SEPTEMBER 7, 1933.

837.00/3779 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 7, 1933—3 p. m.

[Received 4:20 p. m.]

208. The so-called Student Council last night determined to arrest Dr. Torriente and Colonel Mendieta, and likewise Drs. Martínez Saenz, and Saladrigas. All of them left their homes and have gone into hiding, although in the case of the first two I do not believe that there is any intention of doing them any bodily harm.

Alfred Botet, who was a representative of the A B C in the revolutionary junta in New York City, called to see me this morning to inform me that the A B C are persuading some of the younger officers, who are identified with them, to return to their troops at Camp Columbia tomorrow afternoon, Friday, in order to assist in the plan referred to in my telegram 206, September 7, noon.

The feeling in the city is increasingly tense and while the revolutionary group in control continues to issue reassuring statements as to the maintenance of order it seems to be the consensus of opinion that grave disorder may develop in the near future.

WELLES

837.00/3780 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 7, 1933—6 p. m.

[Received 7:57 p. m.]

209. It is my impression that the situation here is breaking fast. Dr. Belt, Secretary of Public Instruction in the Céspedes Cabinet, has just called to inform me that Sergeant Batista has requested an interview with President Céspedes in order to inform him that the Army wishes to place itself at his disposal. Dr. Belt advises me that he is to

act as intermediary since he has refused to permit the President to receive Batista. He further informs me that Carbo, one of the five members of the revolutionary group, has fled and that the others are only waiting in order to seek some solution which will guarantee their safety.

The sergeants and the ringleaders of the mutiny are in a state of panic and I have recommended to President Céspedes that he not turn down a request made by them to place themselves at his orders in view of the fact that if they are denied any hope they may get entirely beyond control tonight.

A large Communist demonstration to protest against everything and in particular against the United States and to urge the creation of a Soviet Government was scheduled to take place at 4 o'clock in the main park. Soldiers with machine guns have gone to the park and I am reliably informed that the meeting scheduled will not take place.

I am beginning to have the hope that the situation may turn out so that we may be able to avoid any act of intervention other than that of the landing of a moderate force, at the request of President Céspedes, to assist his Government, if it is re-constituted, in maintaining order.

WELLES

837.00/3783 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, September 7, 1933—6 p. m.

[Received 9 p. m.]

180. Minister for Foreign Affairs told me this morning that he was telegraphing Mexican representatives in important South American countries to endeavor to secure cooperation of respective countries in bringing influence to bear on present Cuban Government to maintain order and to protect foreign interests in Cuba. Foreign Office has just telephoned that telegrams have been sent to Argentina, Brazil and Chile and that Mexican Chargé d'Affaires had been fully informed of Mexican position.

DANIELS

837.00/3818

Memorandum by the Secretary of State

[WASHINGTON,] September 7, 1933.

The French Ambassador⁴¹ called and made inquiry about conditions in Cuba and stated he had just been informed that a French national had been killed by disorderly forces at Santiago. I expressed

⁴¹ André de Laboulaye.

deep regret at this news and described fully to him the many precautionary steps the United States Government had taken, from the very hour that information reached Washington of the present revolution, to allay the lawless movements and to encourage the law-abiding forces of Cuba to create at the earliest possible moment a stable government that could maintain law and order. The Ambassador seemed pleased at the idea that our government had not overlooked a single precautionary step that might be helpful. I stated to him that I had talked to Ambassador Welles over the telephone an hour ago and he informed me at the time that conditions were grave in Santiago, although they had been quiet early in the morning. I added that he had not given me any information of the killing of the Frenchman or of any other person.

I assured the Ambassador that our government would continue to take every possible precautionary step in the interest of law and order in Cuba and that we would place at his disposal any and all information we might receive from there.

C[ORDELL] H[ULL]

837.00/3778 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 7, 1933—8 p. m.

90. Your 206 September 7, noon. We fully appreciate the various viewpoints set forth in your telegram. However, after mature consideration, the President has decided to send you the following message:

"We feel very strongly that any promise, implied or otherwise, relating to what the United States will do under any circumstances is impossible; that it would be regarded as a breach of neutrality, as favoring one faction out of many, as attempting to set up a government which would be regarded by the whole world, and especially throughout Latin America, as a creation and creature of the American Government."

The President's conversations with the ABCM representatives⁴² have received widespread approval in the United States and throughout Latin America and any action contrary to the policy outlined therein would have disastrous effects.

The above does not mean, of course, that you should do anything to block or in the least affect any movement by any faction; in other words, strict neutrality is of the essence.

All of us appreciate the heavy load you are carrying and hope you may bear up well in order to get the best possible results in these trying circumstances.

HULL

⁴² Representatives of Argentina, Brazil, Chile, and Mexico.

837.00/3781 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 7, 1933—8 p. m.

[Received 8:42 p. m.]

210. A meeting is called for 10 o'clock tonight at the Palace which will be attended by the leaders of all political groups. I am reliably informed that the revolutionary group in control will then turn over the Government and I am further advised that President Céspedes will be restored as head of the Government.

WELLES

837.00/3782 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 8, 1933—2 a. m.

[Received 3:53 a. m.]

212. My telegram No. 210, September 7, 8 p. m. The meeting at the Palace appears to have degenerated into a fruitless prolonged argument. I have just been visited by two of the delegates of the Unión Nacionalista present who stated that Mendieta and Menocal have left in disgust and that no compromise agreement can possibly be reached. During the discussion the leaders of every political sector urged the group in power to turn over the government to a legitimate government of concentration on the ground that the present government represented only the students and the extreme radicals. Finally a subcommittee was formed but it seems improbable that any useful result can be expected from its deliberations.

WELLES

837.00/3786 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 8, 1933—11 a. m.

[Received 12:40 p. m.]

214. For the President. I have this morning conferred with Admiral Freeman. I concur thoroughly in the policy of not having more than two destroyers in Habana harbor at one time. I do, however, consider it essential that the *Richmond* should remain in the harbor until conditions are changed materially for the better. There are two immediate possibilities of danger in the city to be considered: The first is an absolutely disorganized and demoralized army of some 2,000 men who now realize their mistake and while the majority of them are

7th
10th
17th
anxious to find any peaceful way out of the situation they have created for themselves, another group who are in close touch with Communist leaders in Habana may resort to desperate measures if they become sufficiently drunk. The other potential danger which I consider far less important is that possibility that crowds directed by the most radical agitators may commence a demonstration against Americans in the course of which American lives and more probably American property will be jeopardized. I shall not under any conditions request the landing of a single man unless I feel that American lives are in actual immediate danger. Under these circumstances I feel it is a wise precaution to have the *Richmond* anchored in the harbor where men can be landed at short order rather than outside the harbor, which would involve considerably more time in landing men in the event of urgent need. In so far as the effect upon the populace here is concerned, there is not the slightest difference in the impression made upon them whether the *Richmond* is outside the harbor or within the harbor. I have every reason to believe that no situation where American lives are in actual danger will develop but on the other hand, appreciating the possibilities inherent in the conditions which now exist in Habana, from the many contacts which I have and from information which comes to me from all sources, I feel precautionary measures are fully warranted.

WELLES

837.00/3789 : Telegram

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

SANTO DOMINGO, September 8, 1933—11 a. m.

[Received 1:15 p. m.]

36. The Minister of Foreign Affairs called on me this morning by direction of the President of the Republic, to inform me that in view of the confidence of the Dominican Government in the "purity and justice" of the policy of the President of the United States with regard to the Cuban situation the President of the Republic desires to assure the President of the United States of his readiness to cooperate in any way desired. The Minister of Foreign Affairs mentioned that President Trujillo had given instructions that American military aircraft could utilize freely the territory of the Dominican Republic. The Minister informed me that the aircraft of the Dominican Republic would be placed at the disposal of the American Government if so desired.

The Minister added that the Dominican Government had received from the junta in Habana a number of communications requesting

recognition but that the Dominican Government had not answered these messages and would be guided in the matter of recognition by the policy of the United States.

SCHOENFELD

837.00/3798 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 8, 1933—2 p. m.

[Received 7:35 p. m.]

216. For the President and the Secretary. With reference to telegram 206, September 7, noon, and to the President's message contained in your 90, September 7, 8 p. m., I desire to submit the following summary of the present situation.

The Céspedes Government that was overthrown by the Army mutiny was supported by and participated in by members of the following political parties and independent groups: the Unión Nacionalista, which is the greatest political force in Cuba today and which likewise has the growing support of the old Liberal and Conservative Parties whose members have turned almost unanimously to Mendieta, the leader of the party; the Gómez Liberals, whose strength is concentrated in Habana and Santa Clara; the original A B C, which is a very powerful party organized throughout the Republic and directed by younger men of integrity and idealism; the O C R R, a revolutionary group, particularly strong in Matanzas and Camaguey; the followers of Menocal; the U R and the U N R Revolutionary Societies, which have considerable following in Oriente and Camaguey; the university professors except for six or seven radicals; all commercial and business groups; and all of the Cuban Army officers; in other words, the enormous majority of the Cuban people.

The Army mutiny was originally engineered by a few Communist leaders in Habana under the guidance of Martínez Villena, who got the soldiers to believe that their pay was to be cut and their numbers reduced. At the last moment the student group intervened with the connivance of Carbo and persuaded the non-commissioned officers and the soldiers to depose their officers and join in creating a government installed by the students and committed secretly to the semi-Communist program published by the extreme radical students 2 weeks ago. This new regime is supported by the students, by a few university professors, by the small group called ABC radicals which is chiefly composed of boys from 16 to 20 years of age, by heterogeneous mass of extreme radicals of every shade, and by the enlisted men of the Army in Habana and a few other cities.

At the meeting of the political leaders held last night, which broke up at 4 a. m., and is due to resume at noon today, the leaders of the parties supporting Céspedes held firm except for Gómez who tried to carry water on both shoulders. They urged a return to legality with Céspedes as President and a Cabinet of concentration. No basis for agreement was even indicated.

The ABC leaders state the aviation officers are to seize the aviation camp this afternoon. They expect to seize Sergeant Batista and the other ringleaders at Camp Columbia but if they fail the camp will be bombed by the aviators; the Ferrer plan is to be consummated to-night if no change in the situation occurs and the loyal troops at Matanzas will then march on Habana. It may be that an overturn in government will ensue.

In my considered judgment the present revolutionary government has neither popular support nor any means at its disposal with which it can maintain order. It continues to declare that order exists throughout the Republic notwithstanding cumulative evidence from every province that complete anarchy exists and that where quiet prevails it is the quiet of panic. If this government continues much longer and no counterrevolt is successfully staged by the conservative groups it will be replaced by a soldier-workman which will last until a concerted revolt of the majority takes place.

With regard to the President's message above referred to, I concur that we should make no promise implied or explicit as to whether we would land troops to maintain order if a counterrevolution to replace the Céspedes Government were successful. I fully agree that we should take no action which would permit the creation of the belief that any Cuban government was installed by us. My previous cables will make plain that I have strictly followed this policy. I wish, however, to make it very clear that Céspedes himself, who had not resigned and is recognized by us as the constitutional President of Cuba, represents no faction but was selected by all political groups after Machado's overthrow as a man who had the confidence of all and who, since he was known to belong to no political party, could as President guarantee fair elections. Consequently if he were reinstated with the support of all the groups above mentioned and we assisted his Government either financially, economically or through affording police service until the Cuban Government could clean up the condition created by the Army mutiny, we would not be "favoring one faction out of many", but lending friendly assistance at its request to a Cuban Government presided over by an impartial President and supported by every element of importance in the Republic.

Finally, nothing, in my judgment, would create more disastrous effects in Latin America than a prolonged military intervention in

Cuba. If, at the request of the Cuban Government, we temporarily afford them the moral assistance a small number of Marines would create in maintaining order after such Government had established itself and until a new Army could be organized, such assistance should be construed as just as much of a friendly act as the facilitating of a loan. In the one case we would lend the Cubans police and in the other money, neither of which they possess. *but we must not be too hasty*

I fully agree that no such action should be taken by us unless it appeared indispensable. But I feel it would be a far wiser policy to do this, if necessary, rather than permit [conditions?] in Cuba to slide until complete anarchy prevails and we are forced into a military intervention. *26/11 1933*

There is, of course, no necessity for decision on this point now. It is, however, a contingency that may arise and it is for that purpose that I requested instructions.

I would appreciate having the President's wishes communicated to me in the light of the additional considerations above-indicated.

WELLES

837.00/3794: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 8, 1933—4 p. m.

[Received 5:40 p. m.]

217. The Hotel Nacional in Habana, where many of the American colony are living at the present moment and to which I myself have moved since the lease on my house expired, has been decided upon today by the Cuban Army officers as headquarters. Approximately 500 officers fully armed are in the hotel. Some of them have received information that their houses have been sacked by the soldiers this morning and many of them are in fear of their lives. They refuse to leave the hotel since they state that it is the only place open to them in Habana which can be readily defended. At the present moment there appears to be no likelihood that the soldiers will attack the officers so long as they remain in the hotel but the possibility, of course, exists and in that event the protection of the lives of Americans resident in the hotel would be a very serious problem.

WELLES

837.00/4218

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] September 8, 1933.

Dr. Marquez Sterling, in charge of the Cuban Embassy, came in to see me this afternoon under instructions from Dr. Guillermo Portela,

who is a member of the Cuban governing group, and who is in charge of foreign affairs, to ask me if it were true that the United States Government intended to disembark marines at Habana this afternoon. He said that that report had been circulated throughout the city and that as a result a very disturbed feeling prevailed there. I told him that the report was false. He asked me if we had any intention of disembarking marines. I replied, "only for the protection of lives in actual physical danger". He asked me if this might be made public at Habana. I said yes, that publicity might be given to the fact that "we have no intention of landing marines except in the single case where they are needed for the protection of lives actually in danger".

Dr. Marquez Sterling went on to say that the Committee composed of the five members of the governing group and leaders of the opposition parties were still in session; that it meant to stay in session until it had agreed upon a President acceptable to all and a concentration cabinet representing all the groups.

As Dr. Marquez Sterling had asked me if he might speak frankly to me on the question of landing marines, I said, "I would like now to ask you frankly a question". I said, "we hear that Communist elements are having an unfortunate influence and are causing disturbances in many parts of Cuba; what do you say to that?" He said that he could assure me that there were no Communist elements in the Revolutionary Government; that on the other hand, it was quite possible that the Communists were causing disturbances in various parts of the Island but he believed that with the formation of a concentration government it would be easy to put down the Communists. I said, "what is this I hear about anti-United States propaganda in various cities?" He said "those are only irresponsible elements; not more than ten serious people on the Island are unfriendly to your country".

He asked me if I thought that the formation of a concentration government would be a good step. I said, "I will repeat what we have often said before,—that we would welcome the formation of any Cuban Government able to maintain order and give adequate protection to the lives of inhabitants of Cuba. We have no desire to impose any individuals or select the members of your Government."

J[EFFERSON] C[AFFERY]

837.00/3868

*The Argentine Ministry for Foreign Affairs to the Department of State*⁴³

[Translation ""]

The Argentine Embassy in Washington has communicated to its Government that it has been informed by His Excellency, the President of the United States, of the lofty principles with which he is considering the political disturbances in the Republic of Cuba, and of his ardent desire not to be obliged to intervene, notwithstanding the Platt Amendment.

The Argentine Government is grateful for the information which has so kindly been communicated to it and is pleased to learn that the action which the Chief Executive proposes to follow will correspond to those high ideals. It does not doubt that he will be able to maintain them, whatever may be the course of events which take place in the sister Republic, and which the Argentine people are observing with such heaviness of heart. The statements made will do honor to American traditions and by their example history will know that no state arrives at the maturity of democracy and the fullness of destiny without experiencing, as a necessary accompaniment, the travail of difficult conflicts.

The capacity to maintain order and to assure the reign of law emerges by itself as a fruit of this experience within the exercise of sovereignty, which must be characterized by absolute internal autonomy and complete external independence. Such principles are developed by a formative process in all youthful nations and, especially in recent times, by the demonstration that the reestablishment of normality requires a natural flow in the spontaneous development of national tendencies.

Argentina has invariably supported such doctrines throughout the course of its history. It believes that the only method which will assure on this continent the stability of political institutions is the maintenance of those standards as the mainstay of justice and international peace. It is confident that the Cuban people will overcome the difficulties through which they are passing, and will be able to find a way to pursue their destiny, free to follow out the dictates of patriotism and the love of fatherland.

BUENOS AIRES, September 8, 1933.

⁴³Transmitted to the Department by the Argentine Embassy September 12, 1933.

⁴⁴Translation from Department of State, *Press Releases*, September 9, 1933, p. 148.

837.00/3869

Memorandum of Telephone Conversation Between President Roosevelt, the Secretary of State, and the Ambassador in Cuba (Welles)

[WASHINGTON,] September 8, 1933.

At about 11:00 o'clock this evening, Mr. Welles telephoned the Secretary to advise him that about half the officers in the National Hotel had left, leaving about 250 (?) still there and that all of the soldiers surrounding the hotel had left.

Mr. Welles went on to say that due to the conditions prevailing in Habana at the moment he wished to have authority to issue a statement to the effect that the American Government had not and would not give consideration to the recognition of the revolutionary group at present in power at Habana. After an exchange of views between the Secretary and Ambassador Welles, the President was cut in on the conversation and gave Mr. Welles authority to issue a statement to the effect that no question of recognition or non-recognition of the group now in power in Cuba had been considered by the American Government up to the present time.

H[UGH] S. C[UMMING]

837.00/3807 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 9, 1933—11 a. m.

[Received 1:45 p. m.]

220. Late last night I was informed that in disgust at the appointment of Batista as Colonel and permanent Chief of Staff of the Army, Porfirio Franca, the most conservative member of the revolutionary group at the Palace, had resigned and had gone into hiding fearing an attack upon him by Batista. José Irizarri, another member of the group, likewise resigned. Both of them have agreed to withhold publication of their resignations until Monday morning in order not to provoke a public crisis.

Franca stated to my informant that the attitude of Batista had now become intolerable since he was dictating to the so-called government instead of carrying out the orders given him by the government. Franca fears Batista will now undertake a new *coup d'état* to do away with the revolutionary group and install himself in the Palace.

From the leaders other than Nacionalista, the ABC and the Menocalista Party, I am advised that when the discussions between the revolutionary group and the political leaders are resumed at the Palace this morning the representatives of the three groups mentioned will de-

liver an ultimatum insisting upon the immediate formation of a government created in the customary form and participated in by all of the important factions in the country. With the schism which now exists within the revolutionary group itself it appears likely that a compromise will be reached but in view of the attitude of Batista it would not seem as if such solution would afford any very favorable prospect of stability.

WELLES

837.00/3809 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 9, 1933—noon.

[Received 3:20 p. m.]

221. My 217, September 8, 4 p. m. Shortly after speaking to the President and yourself last night I was called urgently to the National Hotel which was again surrounded by soldiers and in the front of which a considerable number of soldiers was stationed with machine guns. I found in the hotel a small commission of sergeants with orders from Batista to search the hotel and to seize all arms found in it. The officers who feared, I have no doubt with justification, that most or all of them would be seized in the course of the search had again taken to the upper floors where they were prepared to defend themselves. The situation was complicated by the fact that there were many civilians fully armed who had joined the officers and a certain number of Americans also armed prepared to prevent any search of the apartments which they occupied. I explained to Sergeant Diaz who was spokesman for the commission that if the soldiers attempted to enter the hotel they would undoubtedly be attacked by the officers and that in the course of the grave disturbances which would probably result the lives of the Americans resident in the hotel would be unquestionably endangered. I explained to him the very serious possibilities of the situation should he proceed in his attempt. He advised me that he would telephone his superiors and explain to them the representations I had made and I also requested a group of Cubans present in the hotel who are on friendly terms with some of the members of the revolutionary group in the Palace to proceed there at once and explain the point of view I had expressed. Within half an hour telephone orders came from the Palace that all troops would be once more withdrawn and orders were promptly carried out. An almost identical situation developed at half past two in the morning but in the latter case no soldiers entered the hotel. Finally at 4 o'clock this morning the line of pickets and sentries which had been stationed on all streets leading

to the hotel were withdrawn and since then the situation has remained quiet.

The fact that the officers have been unable or unwilling to leave the hotel until now has prevented the carrying out of any of the plans they may have had in mind. No attempt was made to seize the air field or to take part in any counterrevolt.

The same feeling of high tension exists in Havana this morning that existed yesterday. Except for the disturbances around the hotel the city last night was relatively quiet although good deal of shooting occurred in one or two suburbs.

WELLES

837.00/3940

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Mexico (Daniels), September 9, 1933, 1 p. m.

SECRETARY: Good morning, Mr. Secretary.

AMBASSADOR: How are you Mr. Secretary?

SECRETARY: It is good to hear your voice. What is going on?

AMBASSADOR: They told me you called me last night.

SECRETARY: I called and then cancelled the call. I did not understand fully at the moment about the kind of recognition that Mexico was accustomed to extend to all countries situated like Cuba, but I learned what the Estrada doctrine is. I got on to it and then cancelled this call. I was out of touch with my real advisers like Wilson and Caffery for the moment.

AMBASSADOR: That doctrine is that if their diplomatic representative remains, that is continuing the recognition.

SECRETARY: Exactly. What does the Mexican Foreign Office think about the attitude of the ABC countries?

AMBASSADOR: They like it very much.

SECRETARY: Have they got replies yet from all three of them?

AMBASSADOR: I do not know. I will find out and let you know.

SECRETARY: It will be interesting to have anything you get. There is no urgency. It can come by cable instead of telephoning.

AMBASSADOR: I will find out right away and cable it.

SECRETARY: The Argentine sent something to us last night. I wanted to know what she sent to Mexico so as to know her attitude accurately. We are doing everything we can. You can tell our Mexican friends to encourage the Cubans to build up a government there that will preserve law and order and will be stable, and say that we are greatly appreciative about what the Mexican Government is doing on its own initiative.

AMBASSADOR: Yes, I will gladly do that. They are very tense down here. They feel that if we intervene it will destroy the Montevideo conference.

SECRETARY: We are going to resort to everything possible to prevent intervention. The last thing on earth we want to do is intervene. That is why we want the Mexicans so much as good friends, on their own initiative, to get it to the Cubans that they must get together and form a stable government. We have very persistent reports that there are more or less communistic influences in there that are trying to keep anything from being done to restore order and that may be the chief trouble we have down there.

AMBASSADOR: I talked with the Minister of Sweden yesterday. He knows two of those men now at the head and says they are high-class.

SECRETARY: Tell him it may not matter who is in charge any more than it did when the Céspedes government was in. The whole thing revolves around the army and you might have a commission made up of the finest men in the universe there and the army might go back on them within a split second. That is the key to our trouble and that is what we have to keep our eye on, as well as the personnel of the commission.

AMBASSADOR: I see. Goodbye.

837.00/3804 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

Mexico, September 9, 1933—4 p. m.

[Received 7:45 (?) p. m.]

182. With reference to our telephone conversation of this morning ⁴⁵ I delivered your message regarding his action looking toward producing peace in Cuba to Dr. Puig, who highly appreciated it. He said that he has not heard directly from any countries except Chile. He said that both Chile and Argentina are in harmony but Chile thinks opportunity should be given to all countries to unite in concerted action, otherwise some who were not given this opportunity might feel slighted. According to a telegram from Mexican Chargé d'Affaires in Washington, sent after conferring with Latin American colleagues there, Argentina, without discussing the validity of the Platt Amendment, would not approve of United States intervention even in case of civil war. Dr. Puig will let me know as soon as he hears further and I will telegraph. He is doing everything possible to aid in securing order in Cuba. He says the feeling against intervention by the United States is deep-seated and unanimous.

⁴⁵ See *supra*.

U.S. could intervene

He showed me a telegram from Mexican Chargé d'Affaires in Washington to the effect that some of the Latin American diplomats in Washington hesitate to sign a round robin to Cuba because such action might indicate they were trying to intervene in Cuban affairs.

DANIELS

837.00/3812 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 9, 1933—4 p. m.

[Received 8:30 p. m.]

222. A commission of sergeants visited President Céspedes this morning in his house to inform him that Colonel, former Sergeant, Batista was willing to support his restoration to the Presidency provided President Céspedes would confirm him in his position as Colonel and Chief of Staff of the Army and guarantee his safety and that of his associates in this mutiny. President Céspedes stated that he was unwilling to make any commitments whatever as to what would be done provided he was reinstated in power. I have just been informed that the meeting of the political leaders at the Palace with the members of the revolutionary group has resulted in the determination to restore the presidential form of government. No decision has yet been reached as to the Presidency.

WELLES

837.00/4033

The Ambassador in Mexico (Daniels) to the Secretary of State

[MEXICO,] September 9, 1933.

[Received September 15.]

DEAR MR. SECRETARY: It was good to hear your voice over the telephone to-day. Sometimes I get lonesome for the voice of a friend in our country. It cheered me greatly when you said "I would rather walk from here to the South Pole than to have to intervene".

In our conversation this morning you said "All reports are very persistent that there are more or less communistic [influences] in there behind a certain group that is trying to keep anything from being done, and that may be the chief trouble we have down there". My information here is that the report of communistic influence in Cuba is very much exaggerated. In our own country and elsewhere people attribute to Communists all the agencies that work evil. I think it is so in Cuba, and if I were you I would accept with many grains of

allowance the attempt to saddle on the comparatively few Communists all ~~that goes awry~~. Some years [ago] Lord Lochiel, a Cameron of Scotland, was visiting in North Carolina. "The trouble in Scotland" he said "is due to Communists and Bolsheviks". I expressed surprise that there were any in Scotland, and said "Lord, will you please define a Bolshevik". He made several attempts, and each time said "No, that will not do—that is not correct" and then in his inability to give a definition satisfactory to himself, said, "Oh, well, a Bolshevik is anybody you don't like". I am inclined to think that it is ~~not Communists who are making the most trouble in Cuba~~, but they are made to bear sins of other groups.

Practically all the civil officials who had part in helping Machado in his reign of ruin have fled the country or been killed. Up to a few days ago most of the army officers, military men, who had more to do with the reign of terror in Cuba than the civilians were still hold[ing] high rank in the army. The Cubans who drove out the civilians whose rule was evil, feel that their cause will not be safe as long as their army is officered by men who were largely responsible for the downfall of the President who was then Commander-in-chief and carried out the bloody policy. Can you blame the men who risked all for a change to wish to be rid of reactionary military leaders as they ousted civilian leaders? You ~~put your hand on the sore spot~~ when you said in your telephone talk "The whole thing revolves around the army". Does it not—or may it not revolve—around army officers, who were in sympathy with Machado, but who still hold positions which make them dangerous. Of course we are alarmed when armies get out of control of their officers, but may there not be times, as in Russia, when the high-up officers are so utterly out of sympathy with the good objects of a revolution that their continuance endangers reforms?

I do not know enough about Cuba to assert that such is the case there, but I do know that Machado and his associates, civil and military, were very close to high financiers in Cuba and the United States, and had no sympathy for reforms that would give bread to the hungry Cubans whose needs were not cared for by those in power. Army officers under a Machado are often the agents of repression and have no heart-beat for the oppressed and distressed. May not the rich and powerful in Cuba, and their allies in the United States, and imperialistic army officers, be behind the attempt to hide behind exaggerating the lawlessness of Communists? I do not know, but I submit the question for your consideration.

Faithfully yours,

JOSEPHUS DANIELS

*Remember
Machado did not
allow for unions.*

837.00/4219

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] September 9, 1933.

The Mexican Chargé d'Affaires came to see me this evening, 7:00 p. m., and told me that his Government had had a reply from the Chilean Government to Dr. Puig's telegram. The Chilean Government communicated its approval of the proposed action, adding the suggestion, however, that all Latin American countries be invited to subscribe. The Argentine and Brazilian Governments had not yet replied to Dr. Puig's telegram.

Note: Dr. Puig's telegrams to the Ministers of Foreign Affairs of the Argentine, Brazil and Chile, of course referred to the suggestion that the Governments of the ABC powers and the Mexican Government instruct their representatives at Havana to urge the *de facto* Cuban authorities to endeavor to form a Government able to maintain order and protect lives and property.

J[EFFERSON] C[AFFERY]

III. The Regime of Grau San Martín

837.00/3803 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 10, 1933—2 p. m.

[Received 7:09 p. m.]

224. My telegram No. 222, September 9, 4 p. m.⁴⁸ At 2:30 this morning the three remaining members of the revolutionary group in the Palace designated Dr. Grau San Martín as Provisional President of the Republic and immediately afterwards selected Dr. Antonio Guiteras Secretary of Gobernación; José Barquin Secretary of the Treasury; Dr. Carlos Finlay Secretary of Sanitation; Eduardo Chibas Secretary of Public Works. They were either unable to agree upon, or unable to find, candidates for the other Cabinet positions. They announced, however, that additional Cabinet appointments would be made this morning and that Grau San Martín would take the oath of Provisional President at noon today. None of the above have any party affiliation.

The creation of the presidential form of government was due to the strong antipathy which was noted in Habana to the commission form of government, with which the revolutionary group commenced,

⁴⁸ *Ante*, p. 414.

and to the belief that recognition by the United States would immediately be accorded if the type of government was changed. It should certainly be considered as a tendency towards a return to normality. The men who figure in the new Cabinet, with the exception of . . . are men whom I believe to be personally honest. I have no doubt that they are all sincere in the belief that the program of government which the student body has drawn up for them will meet the requirements of the Republic. The Army, I am advised by competent authorities, is showing signs of resentment at the promotion of Batista and the other ringleaders of the mutiny and that many of the other sergeants are demanding similar promotions. Even the appearance of discipline among the troops of Habana has vanished, there are continuous reports of local revolutionary movements in the interior particularly in Oriente Province and in Santa Clara, but it is impossible for me as yet to confirm the accuracy of any of them.

I am more than ever confident that in view of the very difficult situation which has now been presented the only path for the United States to take is that which the President indicated to me on the telephone the other night, namely one of watchful expectancy. None of the political or independent groups have as yet shown any inclination to support this government. None of them, however, with the exception of the ABC has come out openly and strongly against it. It is as yet consequently a group which is solely representative of the student body and of extreme radical elements. The next 2 or 3 days will determine whether any strong revolutionary movement against it will be made. There appears to be no indication now that any successful counterrevolt can be carried through in Habana if after a reasonable period the government attracts popular support, appears to be able to maintain public order even nominally, appoints responsible provincial and municipal authorities, and is able to function as a government in the sense that it complies with its obligations and collects and disburses public revenues; I should strongly recommend consulting with the Latin American Republics with a view to reaching a determination upon recognition; no government here can survive for a protracted period without recognition by the United States and our failure to recognize for an indefinite period if the requisites above-indicated are complied with would merely bring about in Cuba a more thoroughly chaotic and anarchic condition than that which already obtains.

At the moment, however, I cannot see much reason for anticipating so favorable an outcome. The leaders of the large political parties will not, I think, consent to the duration of a government of this character which is necessarily in the last analysis under the control of the enlisted men in the Army. It is most probable that open revolt will not take long in showing itself in the interior provinces.

The local press is now undergoing as severe a censorship as it did in the time of the Machado Government. This censorship is exercised by groups of students who have even gone so far as to inform the Associated Press correspondent here that they will not permit him to send to the United States any material other than favorable regarding present conditions in Cuba; he has, of course, paid no attention to this demand.

The Embassy is being attacked because of its failure to accord immediate recognition to the revolutionary group and the possibility of intervention is being violently assailed. The proprietors of all of the chief newspapers of Habana have as yet, however, had sufficient courage to prevent the publication of any regular editorials criticising either the attitude of the United States or of the Embassy.

The refusal of the Latin American powers to accord immediate recognition has incensed the students who are sending violent cables on the usual subject of American imperialism to the universities and radical associations throughout Latin America.

WELLES

837.00/3810 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 10, 1933—11 p. m.

[Received September 11—1:34 a. m.]

228. This afternoon Dr. Ferrer called at the Embassy to advise me that the Army officers wished to petition me to agree to have a sufficient force of American Marines landed to disarm the soldiers and the innumerable civilians who are armed and that should I agree they would at once proclaim that President Céspedes was the sole legitimated President of Cuba and undertake the recruiting and training of a new Army. I replied that I would not even receive such a petition; and that it was absurd to imagine that the Government of the United States would undertake it at the request of 200 deposed Army officers. In reply to a further inquiry whether my Government would definitely refrain from recognizing the new regime I replied that I most decidedly refused to make any such commitment. I stated that in the matter of recognition we had as yet given no consideration to the question.

My replies to these inquiries, I was later advised by a civilian present, were accurately transmitted by Dr. Ferrer to the assembled officers. Notwithstanding this fact the Directorio Estudiantil this afternoon cabled to Latin American universities the charge that I was inciting the Army officers who have taken refuge at the National

Hotel to disturb public order in order to find a pretext for landing Marines.

In the event that inquiry is made by the press I think the following facts should be stated:

I have never spoken to any of the Army officers either individually or in assembly nor have I ever received any message from them other than the one above-mentioned. I moved to the National Hotel because the lease on my own house had expired and I expected to sail on September 14th. I had been living there 2 days before any Army officers had taken refuge there. I have not changed my residence both because my doing so would have been at once misinterpreted and also because since the hotel is owned by an American company and many Americans have been residing there I believed my continued stay was helpful in view of the complications existing.

WELLES

837.00/3828 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 11, 1933—noon.

[Received 3:33 p. m.]

231. The A.B.C., in many ways the best organized and most energetic political organization in Cuba, published this morning a very long proclamation making entirely plain its hostility towards the present regime in Habana. The following are the salient features:

"Less than 30 persons gathered together in the military camp appointed by their own responsibility and without previous consultation five individuals to exercise the Executive Power of the Republic. These five individuals in turn, after several interviews which had as object the attempting to obtain the support of the political parties of the nation for this committee, designated one of their own initiative and without the agreement of anyone else, a President who is one of the members of the committee and likewise a Cabinet.

"The military mutiny which took place can never be justified by history since there can be proved beyond doubt that the Government of Dr. Céspedes was essentially a Government of public opinion. A crisis of juvenile impatience has led to an unjustifiable act of violence against that Government with disastrous results for our political future. The attempt has been made to show that the Government of President Céspedes was not a spontaneous product but the result of mediation of the American Ambassador. The argument is good for demagogues to use because there is nothing that can incite the anger of a Latin American people more thoroughly than to wave the flag of North American imposition. But the falsity of this argument is notorious. The outstanding leaders of the opposition parties suggested the name of Dr. Céspedes which was accepted unanimously because of his qualities of integrity and patriotism and his impartiality in political strife.

"This recent mutiny results in the placing of one class against another and took place contrary to the desires of the entire country. It was the result not of national desire but of the impatience of a tiny minority and far from preventing intervention it inevitably creates the danger of intervention.

"While the A.B.C. is positively opposed to any form of foreign intervention it is determined to oppose with equal energy those who have provoked the possibility of the intervention through their stupidity and inability."

In a formal statement issued this morning General Menocal in behalf of his political party states "We decline all present and future responsibility which may be derived from the formation of the Government."

In an interview which I had last night with Colonel Mendieta he advised me that in the course of the day he and his fellow leaders of the Unión Nacionalista would issue a public statement condemning the present regime and opposing its continuation in power.

The discipline of the Army is daily slipping and rivalry and dissension between the various sergeants is on the increase. A large number of the deposed officers still remain at the National Hotel although a 24-hours' truce, expiring this evening at 6 o'clock, has been agreed upon. It is my hope that before the expiration of that period some arrangement will be made which will permit the officers to leave the hotel with guarantees.

WELLES

837.00/4221

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] September 11, 1933.

The Brazilian Ambassador called on me this afternoon to say that he had received a telegram from his Government stating that the President's action in calling in the Brazilian diplomatic representative here and explaining our point of view in regard to the Cuban situation had been highly appreciated at Rio.

The Ambassador then asked me if we approved of what the Mexican Ministry of Foreign Affairs was attempting to do in regard to the suggestion to be made by the ABCM powers at Habana that it was important for the Cubans to form a stable government capable of maintaining order in the country. I told the Ambassador that we approved of the attitude of the Mexican Government in the instance.

The Ambassador added that his Government desired him to say that in no case would Brazil take part in any action which might present possibilities of degenerating into a movement directed against the United States on the question of intervention. I said to Mr. Lima e

Silva that we did not apprehend that the Mexicans had anything of that sort in mind; we believed they were sincerely desirous of giving good advice to the Cubans. Mr. Lima e Silva said that it was his understanding that as the Mexican proposal now stood the idea was that the diplomatic representatives of the four interested powers here in Washington should agree on a declaration to be made at Habana. However, he apprehended that the Argentine representative here would be unable to take part in a move of this kind, it being clear from the Argentine note published a few days ago that the Argentine Minister for Foreign Affairs was opposed to the Mexican suggestions.

I thanked the Brazilian Ambassador for his information.

J[EFFERSON] C[AFFERY]

837.00/4220

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] September 11, 1933.

The Chilean Chargé d'Affaires ad interim came to see me this afternoon to say that he had instructions from his Government to pass on to the President and the Secretary of State his Government's thanks and high appreciation for the President's action in informing the Chilean representative here of our point of view in regard to the Cuban situation. Mr. Cohen added (as we already know) that his Government approved of the Mexican suggestion. However, it had made the added suggestion that not only the ABCM powers be asked to participate in the informal representations at Habana, but that every Latin American country be included. Mr. Cohen gave me to understand that he doubted whether this were practicable, there being too many divergent points of view among the nineteen Latin American Governments represented here,—it does not seem possible that they could all agree on a definite course of action at Habana.

Mr. Cohen then said, "well, in any event, I think that considerable good has been accomplished; the Cubans know how we, that is at least the Mexicans and ourselves, feel about the matter and, doubtless, this will have a salutary effect on their activities".

J[EFFERSON] C[AFFERY]

837.00/3789 : Telegram

The Secretary of State to the Minister in the Dominican Republic (Schoenfeld)

WASHINGTON, September 11, 1933—6 p. m.

24. Your 36, September 8, 11 a. m.⁴⁷ You will please inform the Minister of Foreign Relations orally that this Government greatly

⁴⁷ *Ante*, p. 404.

appreciates the friendly gesture of the President and the Dominican Government and add that as we have already explained to the Dominican Minister in Washington, as well as to the other representatives of the American Republics, we are not contemplating intervention or interference in Cuban affairs, and that it is our most sincere hope that the Cubans will themselves work out a Cuban solution of their difficulties.

HULL

837.00/3835b : Circular telegram

*The Secretary of State to Certain Diplomatic and Consular Missions*⁴⁸

WASHINGTON, September 11, 1933—6 p. m.

For your information and appropriate use in case of conversations on the Cuban situation: This Government in view of disturbed conditions in Cuba has sent ships to that country solely as a precautionary measure and there is not the slightest intention of intervening or interfering in Cuba's domestic affairs. It is our earnest hope that the Cubans themselves will work out a solution of their own difficulties and that they will be able to form a government capable of maintaining order. We have not, and shall not, attempt to influence the Cubans in any way as to choice of individuals in the government.

The Department has explained its position as set out above to the diplomatic representatives in Washington of the Latin American countries, and the President has himself repeated this to the representatives of Argentina, Brazil, Chile and Mexico.

HULL

837.00/3830 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 11, 1933—6 p. m.
[Received 8:30 p. m.]

233. My 231, September 11, noon. In addition to the statements of hostility and determined opposition to the present regime announced this morning by the A.B.C. and the party headed by General Menocal and the similar statement which is to be published this afternoon by the Unión Nacionalista, the fourth largest political organization, the O. C. R. R., likewise will issue this afternoon a similar statement. As the result of these public declarations of opposition the political situ-

⁴⁸ This telegram sent to missions in London, Paris, Rome, Berlin, Madrid, Tokyo, and Peking, to the American Consul at Geneva, and to all missions in Latin America except Cuba.

ation is crystallizing noticeably. The attitude thus taken makes it evident to the public that the organized political strength of the Republic which itself represents the large majority of the Cuban people is opposed to a continuation of the present regime. Under these conditions I desire once more to emphasize that in my judgment it would be highly prejudicial to our interests to intimate in any manner that recognition of the existing regime was being considered by us. Every effort is being made and has already been made, through fictitious reports inserted in the local press, to create the impression that the Government of the United States is on the verge of recognizing the group headed by Grau San Martín as the provisional government of Cuba. Headlines appeared in the morning newspapers that President Roosevelt intended to afford immediate financial assistance to Grau San Martín and that recognition by the United States would be obtained within a few hours or days. In view of the campaign of misrepresentation and distortion of the truth which is being conducted by the group now in power and which is causing both consternation and resentment on the part of the powerful parties opposed to the existing regime, I feel it would be highly desirable for a clear-cut statement to be issued by you making unmistakably plain the attitude of the Government of the United States in view of the conditions which now exist in Cuba.

In accordance with my telephone conversation with you 2 days ago I venture to suggest a statement along the following lines:

"The chief concern of the Government of the United States is, as it has been, that the Cuban people solve their own political problems in accordance with the desires of a majority of the Cubans. The Government of the United States believes that only through a provisional government which responds to the will of the majority of the Cuban people can stability be obtained and assurance be given that national elections can be held under the jurisdiction of such government with such full and ample guarantees of impartiality, the fairness as to make possible the successful inauguration of a new permanent and constitutional government of Cuba. It would seem unnecessary to repeat that the Government of the United States has no interest in behalf of or prejudice against any political group or independent organization which is today active in the political life of Cuba. In view of its deep and abiding interest in the welfare of the Cuban people and the security of the Republic of Cuba it cannot and will not accord recognition to any government in Cuba other than a legitimate and constitutional government unless conclusive evidence is presented that such government effectively represents the will of a majority of the people of the Republic, that it is capable of maintaining order and of guaranteeing the protection of 'life, property and individual liberty' and finally that such government is competent to carry out the functions and obligations which are incumbent upon any stable government."

The impression is very general today that the Grau San Martín regime is evanescent. Of the four Cabinet members appointed yesterday Chibas and Finlay have refused to serve and I am likewise advised that Barquin will not take office. A complete Cabinet was to have been announced this morning and such announcement has now been postponed until 10 o'clock tonight. There seems to be very little probability that any Cubans of standing or reputation will accept office. I wish to emphasize again that conclusive evidence has now been presented to my satisfaction that the existing regime represents only the student, a few radical agitators and a small number of insignificant radical groups which have no political importance or following whatever.

The longer the present regime continues in power the more dangerous the situation becomes. For over a week no government department has been able to function and all semblance of order and discipline in the Army is vanishing rapidly.

WELLES

837.00/3830 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 11, 1933—midnight.

96. Your 233, September 11, 6 p. m. The President authorizes me to make the following statement which is now being released for Tuesday morning papers:

"The chief concern of the Government of the United States is, as it has been, that Cuba solve her own political problems in accordance with the desires of the Cuban people themselves. It would seem unnecessary to repeat that the Government of the United States has no interest in behalf of or prejudice against any political group or independent organization which is today active in the political life of Cuba. In view of its deep and abiding interest in the welfare of the Cuban people, and the security of the Republic of Cuba, our Government is prepared to welcome any Government representing the will of the people of the Republic and capable of maintaining law and order throughout the island. Such a Government would be competent to carry out the functions and obligations incumbent upon any stable Government. This has been the exact attitude of the United States Government from the beginning. This statement has been communicated to Ambassador Welles and meets his full approval."

HULL

837.00/3847 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 12, 1933—1 p. m.

[Received 5:18 p. m.]

236. My 231, September 11, 1 p.m. [noon]. The Unión Nacionalista last night issued a statement signed by the four leaders of the party—Colonels Mendieta, Hevíá and Mendez Peñate and Dr. Torriente—in which the party declared that its advice that in these moments of danger to the Republic only a strong government of concentration could govern the country until a permanent constitutional government had been installed as the result of national elections had been disregarded by the group now in power and that the party consequently notified Cuba that it “refuses to accept any responsibility for the circumstances which now exist”.

With the attitude of open opposition to the Grau San Martín regime adopted by the four most powerful party organizations in Cuba, namely, the Unión Nacionalista, the A.B.C., the Menocal party and the OCRR it is very apparent that a majority of the Cuban people will not at present support the government now in power. Cuban commercial circles are unanimously opposed to the regime. During the past 8 days no revenues have been collected, no taxes are being paid, and if the insistent demands of the soldiers for the payment of back pay are complied with no available cash will remain in the Treasury.

Grau San Martín this morning announced the following Cabinet: Marquez [Sterling], Secretary of State; Antonio Guiteras, Secretary of Gobernación; Carlos Finlay, Secretary of Sanitation; Manuel Costales Latatu, Secretary of Public Instruction; Gustavo Moreno, Secretary of Communications; Colonel Julio Aguado, Secretary of War; Dr. Ramiro Capablanca, Secretary of the Presidency; Director Joaquín del Río Balmaseda, Secretary of Justice.

Dr. Capablanca, Dr. Costales Latatu and Dr. Finlay are all university professors, identified with the student movement. Colonel Aguado was imprisoned by the Machado Government for having been involved in a revolutionary plot. Jointly enjoy a favorable reputation. Judge del Río Balmaseda is a judge of a Court of First Instance of Santiago. Gustavo Moreno, appointed Secretary of Communications, was connected with the Unión Revolucionaria, the smallest of the revolutionary groups participating in the mediation negotiations.

Announcement was made at the same time that Colonel Manuel Despaigue had been appointed Secretary of the Treasury. Colonel Despaigue was Secretary of the Treasury under President Zayas and was appointed administrator of the national lottery by President Céspedes.

He is a man of absolute integrity and of the highest character, but he is now very old and he accepted the position offered him by President Céspedes with the understanding that he would only retain it a short period since he advised me his health would not permit him to undertake any arduous work.

There is no politically organized strength represented in the Cabinet. With the exception of Marquez Sterling and Despaigne, none of the individuals mentioned have held any public office before and they are all with the same exceptions closely identified with and responsive to the student group.

The present outlook therefore in brief is as follows:

All of the important political parties have announced themselves as opposed to this Government; the financial situation of the Government is disastrous; the new members of the Cabinet with two exceptions have no governmental experience and will be entirely under the domination of the student group; the Army officers with few exceptions have positively refused to support the Government or to return to the troops and the discipline within the ranks of the troops is degenerating; such public order as now prevails in the Republic is being maintained by civilian committees acting in some instances in the conjunction with the soldiers. Under these conditions the Government of the United States can do nothing more than await developments. None of the political leaders will agree even to tacit support of the present regime and while I have consistently urged the force of public opinion be the only weapon they employ should they desire to attack the Government I have every reason to believe that it is only a question of a short time before General Menocal will attempt to lead a revolution. The sole action I have been able to take in order to prevent this is through the leaders of the other parties who have refused him their cooperation in such a movement at the present time and have counseled him consistently that he await developments without resorting to violence.

WELLES

837.00/3848 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 12, 1933—5 p. m.

[Received 9 : 35 p. m.]

238. The sole motive, I presume, for the editorial published this morning in the *New York Herald Tribune* and reprinted here in the Cuban morning newspapers is for the purpose of making a political attack on the administration. The result, however, of course, of attacks of this character in newspapers of influence in the United States

is to weaken very materially the influence which I possess here and to impair the probability of a successful outcome of our policy. To the best of my knowledge no American correspondents have cabled any such reports as those alleged to have been sent in the editorial referred to. In any event the attitude which I have consistently adopted with reference to the Cuban Army officers who have taken refuge in the National Hotel has been fully reported to the Department. They had as much right to engage rooms there as any tourist would and the question of extraterritoriality was never raised by me nor could it have been except in so far as my own apartments were concerned. Moreover, far from delivering ultimata to the revolutionists now in control of the government, my contracts [*contacts*] with them have been limited to the one conversation I had with Grau San Martín which I reported at once by cable to the Department. It must be perfectly apparent that it would have been a far more agreeable course for me to have left the hotel as soon as the Army officers came there. If I had done so, however, I would at once have been charged with personal fear, which is of considerable psychological importance in these countries and I would moreover have been unable to have prevented the very real danger to the lives of the American residents who had congregated in the hotel, in the event that fighting between the officers and the soldiers had taken place within the hotel which upon two occasions at least appeared to be imminent.

In so far as the despatch of United States vessels to Cuban waters for the purpose of safeguarding American lives is concerned there are very few if any Americans resident in Cuba today who do not believe that they might be in jeopardy so long as this abnormal condition continues should the American warships be recalled. I believe that we have followed the only wise course and the one course that gives promise of any hope in an excessively difficult and complicated situation. We have taken the necessary precautionary steps to insure so far as may be possible the lives of our citizens. We have, on the other hand, not landed a man on Cuban soil nor have we threatened nor attempted to dictate the solution which the Cuban people themselves should bring about. The statement which you issued last night regarding our policy concerning recognition⁴⁹ makes our position perfectly plain to the Latin American world and is heartily approved by all those representatives of the Latin American Republics with whom I have been able to get in touch. It is unanimously approved by all of the important Cuban political groups. Under these very trying circumstances it is impossible naturally to contradict every malicious and utterly unfounded falsehood that may

⁴⁹ See telegram No. 96, September 11, midnight, to the Ambassador in Cuba, p. 424.

be spread regarding my own official activities. They have emanated from the extreme radical group which is connected with the present regime here, just as similar reports were spread regarding the Embassy during the last few days of the Machado administration. I feel very strongly, however, that personal considerations are of no importance whatever where a matter of public policy is concerned. If the President and yourself believe for any reason that it would be advantageous to the administration to have [me] carry out my original plans and leave for the United States within the next few days I must of course do so. I suggested to you on the telephone that it might be preferable for me to remain here until the prospects seem clearer because of my belief that I had had, and still retain, the confidence of the leaders of all of the political groups, with the exception of the so-called student organization, and that for that reason it might be easier for the Embassy in an emergency to prevent sporadic and isolated outbreaks which would not tend to clear the atmosphere but merely complicate matters still further. I shall welcome a frank expression of the President's desires and your own in this regard.

Owing to the fact that all of the servants in the National Hotel left the hotel last night, and that the electric light and water supply will be cut off in the course of the day, I and the Americans still remaining there were forced to leave the hotel this morning. No adjustment as to the situation of the Army officers in the hotel has been reached. Since I left the hotel the American manager telephoned the Embassy at 1 o'clock this afternoon to state that his life had been threatened and the destruction of the hotel property would be undertaken by the student group unless he promptly cut off the water, light, and telephone services. Under the conditions which now obtain there is no authority to afford protection other than nominal. I have, therefore, notified him and also the American manager of the American Electric Light Company that if they receive orders from some governmental authority in the sense indicated it would be wiser on their part to comply with the demand made. In view of the fact that the hotel manager has appealed to the Embassy for protection I consider that this was the only possible policy for me to pursue.

WELLES

837.00/4224

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] September 13, 1933.

The Mexican Chargé d'Affaires ad interim ⁵⁰ came to see me today at noon and said that he had had a telegram from the Minister of

⁵⁰ Luis Padilla-Nervo.

Foreign Affairs at Mexico City instructing him to inform the Department that, as it seemed that a stable government capable of maintaining order had been formed in Cuba, it did not seem necessary to go any further with efforts to induce other Latin American countries to make suggestions at Habana that a stable government capable of maintaining order be formed. The Chargé indicated that, following his conversations with the other Latin American representatives here in Washington, it was his opinion that this view was shared by the great majority of his colleagues. He indicated also that his Government, and most all of his colleagues, believed that we should remove our naval vessels from Cuban waters because they (he and his colleagues) feel that the opposition political leaders in Cuba will not cease their efforts to overthrow the *de facto* government as long as our naval vessels remain there.

Señor Padilla told me also that the real difficulty which the Mexican Government found in its efforts to secure general Latin American action at Habana arose from the fact of the Argentine Government's failure to cooperate, many of his colleagues here fearing to take a definite position until they knew what the Argentine Government would do. As the Argentine Government had done nothing, his Government had found it impossible to proceed. His chief, Dr. Puig, had instructed him to tell me that, therefore, the Mexican Foreign Office would take no further steps in the premises.

I again expressed the Department's appreciation for the Mexican Government's friendly interest in this whole matter, and our appreciation of his (Señor Padilla's) friendly efforts here in Washington.

I then said our position remains the same as it was in the beginning, that is, we have no interest in individuals and will express no opinion as to who should form a Cuban Government—we desire only to see a stable government capable of maintaining law and order formed. "Speaking very frankly," I said, "I must invite your attention to the fact that all of the principal political leaders have come out in opposition to Dr. Grau San Martín. In the face of that, can you say that his government will be able to extend its authority over the Island and, especially, will he be able to secure the support of the army? Will the *de facto* authorities be able to secure the support of the mass of the Cuban people over the heads of the political leaders? It seems to me that the point at issue is important. Either the government of Dr. Grau San Martín will be able to exist notwithstanding the political opposition or the politicians will turn the government out." Señor Padilla admitted that these questions were pertinent and indicated that he was not yet convinced himself that Grau San Martín will be able to count on the army's loyalty, nor was he convinced that Grau San Martín would be able to gain the support of

the mass of the people of the Island in the face of the opposition of the political leaders. He remarked, however, that Dr. Marquez Sterling * (the Cuban Ambassador here) had said to him this morning that he believed that none of the political leaders in opposition could now count on a large following in the Island; that the only well-organized political party in Cuba was the Liberal Party, adherents of Machado, who are now dispersed. Perhaps the *de facto* authorities would be able to secure support from the erstwhile Liberal mass.

I said also (in effect), "no one is more anxious than we are to take our ships out of Cuban waters but we frankly do not yet feel that we can do so in view of the circumstances we have just discussed. Would not it be far worse for us to take them out and have to send them back than to keep them there a while longer?" "Yes", said the Chargé, "that would be disastrous". I said, "please explain that to Dr. Puig". The Chargé said, "I will do so gladly".

Señor Padilla then went on to talk at some length. He said that his Government, and other Latin American governments, understood our position thoroughly but that, owing to the efforts of the Cuban students, the students in other Latin American countries were becoming excited and they were charging their governments with sympathizing with American intervention. He said, "we know the charges are not true, but the matter might easily become a domestic political one for us." He added, "it is almost miraculous how President Roosevelt has been able to change Latin American feeling towards the United States in a few months. We do not want to see that good feeling fade away now, especially since we are all interested in seeing something done at Montevideo next December." I assured the Chargé that we understood their (Latin American governments) difficulties, as well as our own. We appreciated the Mexican Government's frankly putting their ideas before us; we would be glad at all times to receive from Dr. Puig any ideas or suggestions he cares to make. I then repeated our position—"we have no interest in individuals or any desire to suggest names; we desire only to see a stable government formed in Cuba capable of maintaining law and order in the Island. We have no desire to keep our vessels in Cuban waters one minute longer than is absolutely necessary".

Señor Padilla then said, "well, if you can not withdraw your vessels can you do something else to alleviate the situation.[]" I said, "what do you mean?" He said, "could not you make some sort of public declaration to the press here that you hope that Dr. Grau San Martín's government will be able to establish itself solidly in the Island and be able to maintain law and order throughout the Republic.[]" I said,

*Appointed Secretary of State yesterday. [Footnote in the original.]

"that would be a partisan declaration, whereas we desire to remain neutral; that declaration would be construed to mean that we have decided to support the *de facto* authorities and we would be attacked for it by all of the Cuban political leaders. We can not commit ourselves that far yet."

J[EFFERSON] C[AFFERY]

837.00/3861 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 13, 1933—4 p. m.

[Received 5:30 p. m.]

246. The general political situation has not changed materially since yesterday. Dr. Grau San Martín has sent an urgent request to Colonel Mendieta for an interview which has been accorded and will be held at 6 p. m. today. I shall cable the Department tonight the result of the conversation. There are increasing and apparently well-founded rumors of dissension and dissatisfaction on the part of the soldiers. The student body is with frantic haste attempting to organize a student militia with its headquarters in the university. My informants, who belonged to the student group although opposed to the present regime, advise that this effort is due to the realization by the students that the feeling among the soldiers is becoming increasingly dangerous both in so far as the present government is concerned and likewise in so far as communist propaganda is involved.

I was visited this morning by General Asbert, a former Governor of the Province of Habana and a former very prominent member of the Liberal Party who created a personal following during the last 2 years of the Machado administration. He gave me to understand although without saying so openly that he desired to join those groups of the opposition to the present regime who desired to commence an immediate revolution for the purpose of restoring the Céspedes Government. I counseled patience and a waiting policy. I am informed that the students are now dissatisfied with the constitution of the Grau San Martín Cabinet and that they are insistently demanding that all Cabinet members other than those identified with the student body be dismissed from office.

The officers remain at the National Hotel. They were joined last night by a small group of additional officers from the interior and apparently succeeded in getting into the hotel an additional quantity of arms and ammunition. While the ordinary water supply is cut off they have enough stored in tanks to last them for 10 days as well as food supplies for a much longer period. General Sanguily

has taken command. All immediate hope of agreement with the present regime appears to have failed and the officers now appear to desire an encounter if the soldiers are willing to provide it.

WELLES

837.00/3848 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 13, 1933—11 p. m.

98. Paragraph 2 of your 238, September 12, 5 p. m. The President and I are in accord that you should remain at Habana for the present as indicated by you.

HULL

837.00/3871 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 14, 1933—11 a. m.

[Received 12:10 p. m.]

249. Admiral Freeman advises me this morning that the French despatch boat *Dentorereaux*, now at Charleston, South Carolina, is under orders to proceed to Habana Friday September 15th. The French Minister 2 days ago advised me that he had requested that the projected visit to Habana be indefinitely postponed. The visit here of a foreign war ship would undoubtedly complicate matters considerably and it is my earnest hope as it is that of Admiral Freeman that no such visit be made at this time.

I suggest that the French Embassy in Washington be advised of the circumstances with the hope that the orders which have apparently been given notwithstanding the request of the French Minister here be modified.

WELLES

837.00/3899

Memorandum by the Secretary of State

[WASHINGTON,] September 14, 1933.

The French Ambassador ⁵¹ called on my invitation and I proceeded to show him the copy of telegram, attached hereto,⁵² from Ambassador Welles at Habana. I then explained in much detail the extremely delicate and hair-trigger conditions existing in Cuba at this time and said that nothing would be much easier than to arouse the populace

⁵¹ André de Laboulaye.

⁵² *Supra*.

and bring about unfortunate confusion that might result in consequences that could not be foreseen. I pointed out just how our government is resorting to every possible method to preserve the goodwill of the Cuban people in their present confused and inflamed state of mind, and to encourage them in every possible way to establish a stable government at once that can maintain law and order. I then stated that this did not present a question of Cuban nationals or their property being in danger of serious injury and that if such question should later arise we could then discuss all of its phases. I told the Ambassador that this was merely a request that the French Government consider the danger of starting serious complications by having this vessel enter the harbor at Habana at this time. He agreed that he would at once communicate all the facts as to how our government is undertaking to encourage peace, law and order in Cuba and the speedy setting up of a stable government; that he would emphasize the efforts of our government to safeguard human lives throughout the island; and also emphasize the question of whether the French Government could not consistently direct this vessel to remain out of Cuban ports at present. The Ambassador remarked that he thought it was merely on a general cruise from northeast Atlantic ports to the Antilles.

C[ORDELL] H[ULL]

837.00/3871 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 14, 1933—7 p. m.

100. Your telegram 249, September 14. I talked this afternoon with the French Ambassador regarding this matter, and have also telegraphed the Embassy at Paris to take it up immediately with the Foreign Office.

HULL

837.00/3747

The Secretary of State to the Ambassador in Cuba (Welles)

No. 167

WASHINGTON, September 14, 1933.

SIR: In accordance with the recommendations made in your telegram No. 191 of September 5,⁵³ the President authorized the despatch of certain naval vessels to Santiago and Habana purely as a precautionary measure in case American citizens should find themselves in immediate physical danger. When the revolutionary movement ex-

⁵³ *Ante*, p. 379.

tended throughout the Island, with resulting disturbances, additional ships were ordered to various other ports. The Secretary of the Navy also ordered other ships to proceed to Key West and stand by for orders.

In view of the publicity not only in this country but throughout Latin America which attended the despatch of these vessels, the President, after consultation with the Secretary of State, considered that it might be helpful if the governments of all of the Latin American countries were fully informed of our action and reasons therefor. Accordingly, during the afternoon of September 5 and the morning of September 6 Assistant Secretary Caffery and the Chief of the Latin American Division saw all of the Latin American diplomatic representatives, those of Salvador and Cuba being excepted for obvious reasons. Mention was made to them of the conditions which arose in Cuba a few weeks ago, because of which the President had then felt constrained to send vessels to Cuba. At that time the President had made it perfectly clear that the despatch of the ships to Cuba did not mean intervention or interference of any kind with Cuban political affairs, but that their presence was for the sole purpose of protecting American lives should they be physically in danger. When the situation had cleared up the ships were withdrawn. They were informed that unfortunately disturbances had again broken out in Cuba which appeared very serious and the President had again reluctantly found it necessary to send naval vessels for the purpose of protecting Americans should the occasion arise. The various diplomatic representatives were informed that this Government attached great importance to the opinion of the Governments and people of the Americas and, for this reason, desired to explain the situation and to reiterate that the United States was not contemplating intervention or interference in Cuban affairs, but sincerely hoped that the Cubans themselves would work out a Cuban solution of their difficulties.

On the afternoon of September 6 the President personally informed the Ambassador of Argentina and the Chargés d'Affaires of Brazil, Chile and Mexico in the sense above indicated. The President stated that intermeddling in the internal political affairs of Cuba was the last thing that he desired and that the United States would land troops only to afford protection to American lives in immediate physical danger. He reiterated his reluctance in having felt obliged to send ships to Cuba, and that having done so, he desired to explain the situation and to make it clear that he was not contemplating intervention; in fact, that it was his most sincere hope that the Cuban people would set up a stable government capable of maintaining law and order.

The following day the Mexican Government, on its own initiative, telegraphed to the Foreign Offices of Argentina, Brazil and Chile

suggesting that, in an effort to render unnecessary intervention in Cuba by the United States under the Platt Amendment, they join with Mexico in an appeal to the Cuban Government and people for a prompt restoration of law and order. The Chilean Government, in communicating its approval of the proposed action, added the suggestion that all the Latin American countries be invited to subscribe to the joint appeal.

On Wednesday afternoon, September 13, the Mexican Chargé d'Affaires informed Assistant Secretary Caffery that he had received a telegram from the Minister of Foreign Affairs of Mexico City instructing him to inform the Department that as it seemed that a stable government capable of maintaining order had been formed in Cuba, it did not seem necessary to go any further with efforts to induce other Latin American countries to make suggestions at Habana that a stable government capable of maintaining order be formed. He also indicated that his Government, and most of all his colleagues in Washington, believe that the United States should withdraw its naval vessels from Cuban waters; they feel that the opposition political leaders in Cuba will not cease their efforts to overthrow the *de facto* government as long as American naval vessels remain there. Furthermore, he told Mr. Caffery that the real difficulty which the Mexican Government encountered in its efforts to secure general Latin American action at Habana arose from the fact of the Argentine Government's failure to cooperate. As the Argentine Government did nothing, his Government had found it impossible to proceed. (See attached memorandum of conversation between the Mexican Chargé d'Affaires and Assistant Secretary Caffery.)⁵⁴

There are enclosed herewith copies of various memoranda and telegrams⁵⁵ bearing on this matter.

Very truly yours,

For the Secretary of State:
JEFFERSON CAFFERY

837.00/3880 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 14, 1933—8 p. m.

[Received 10:05 p. m.]

254. Doctor Carlos Saladrigas, Acting Secretary of State in the Céspedes Government and one of the most influential and prominent members of the ABC, called to see me this afternoon. He told me that in view of the present emergency Dr. Martínez Saenz had been made dictator of the party and that the ABC was cooperating with the Menocalistas and the other parties opposed to the present govern-

⁵⁴ Memorandum dated September 13, p. 428.

⁵⁵ Not printed.

ment for the purpose of forcing a compromise and the creation of a national government of concentration. He told me that if the student group refused to compromise and preferred to attempt to drive the Republic to disaster his party and those associated would have no other alternative than immediate military action. He further told me that a rapid and effective organization of themselves and commercial groups was being made for the purpose of protecting themselves against the possibilities which they foresaw in the continuation of the present regime. Organization of commercial and financial interests is likewise progressing rapidly in other parts of the Republic. He stated that they would make every effort to force a national compromise upon the present regime in the true interest of the Republic but he expressed himself as being extremely pessimistic and feared that since the students neither have any grasp of the dangers which confront the Republic nor the slightest conception of the unselfish friendship which the United States has displayed for Cuba during the Roosevelt administration they would be unwilling to agree to anything other than their own complete retention of control of the Government.

WELLES

837.00/3884 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 14, 1933—midnight.

[Received September 15—1:43 a. m.]

258. The Grau San Martín Government this evening issued a long proclamation which appears to be a combination of a program of procedure and a temporary constitution. The two most important paragraphs are the following:

"Since the Provisional Government would incur grave responsibility if it abandoned the security of power to seditious ambitions it may temporarily subordinate individual rights to a system of governmental correction and control of whose use account will be given to the Constituent Assembly."

"With full realization of its historic responsibility the Provisional Government declares its profound respect for the sanctity of those international treaties spontaneously entered into in the name of the Republic of Cuba and its firm and decided intention of complying with them to satisfy the revolutionary purposes which gave life to its organization."

In my judgment the use of the word "spontaneously" in this context clearly implies the intention of denouncing the permanent treaty with the United States.

Full text will be sent by air mail.

WELLES

837.00/4008

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, September 14, 1933.

[Received September 23.]

SIR: I have the honor to furnish the Department herewith, as serving to indicate the attitude of Brazil with respect to the political situation in Cuba and the relations thereto of the United States, Mexico, and Chile, a copy of a memorandum of a conversation I had with the Brazilian Minister for Foreign Affairs on September 11.

GIBSON

[Enclosure]

Memorandum by the Ambassador in Brazil (Gibson)

In the course of conversation this afternoon, Mr. Mello Franco referred to the Cuban situation.

He said he was troubled by the Mexican note and had given the Brazilian Ambassador in Washington instructions to work in close understanding with the American Government. He had also declined to have anything to do with the suggestion of the Chilean President that any communication sent to Cuba should be signed by all the American Governments.

837.00/3888 : Telegram*The Chargé in France (Marriner) to the Secretary of State*

PARIS, September 15, 1933—noon.

[Received September 15—7:55 a. m.]

409. Your 277, September 14, 4 p. m.⁵⁸ I saw the Director of Political Affairs at the Foreign Office this morning who told me that the orders had been given more than a week ago for the despatch boat to alter its schedule and not to proceed to Habana. The French have no desire to send any ship there at the present time as it would raise questions of recognition and protocol in which they do not wish to become involved.

MARRINER

⁵⁸ Not printed; see telegram No. 249, September 14, 11 a. m., from the Ambassador in Cuba, p. 432.

837.00/3895: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 15, 1933—6 p. m.

[Received 9:15 p. m.]

army is
not a
major
factor

263. A further move is under way for conversations between the leaders of the Unión Nacionalista, the ABC, Menocalistas, OCRR and representatives of the Grau San Martín regime with a view to attempting to achieve a peaceful compromise for the installation of a concentration Cabinet. A meeting is to be held tonight at 6 o'clock to discuss the bases for such agreement. The morale of the student group seems to be breaking down. The widespread labor disorders throughout the Republic, the attempt at revolt in the Province of Piñar del Río last night, the fact that even in Habana strikers are breaking into shops and that disorder is on the increase and finally the fact that the Army is almost hourly becoming more unmanageable has brought them to the realization that they need help and that they need it quickly. Two delegates of the Unión Revolucionaria, a relatively small group which is the only one of the groups represented in the mediation proceedings that accepted office from the present government have just called at the Embassy to inform me that they foresaw a breakdown of all government quickly unless a solution is found. This feeling is shared, of course, by every other group of political importance. I spent all of yesterday, as well as all of today, urging upon the political parties opposed to the present regime the necessity of making every possible effort to reach a peaceful compromise and I think my efforts have been successful in so far as the leaders have now consented to a further meeting with Grau San Martín and representatives of the student body.

As the result of an indication on the part of students acting under the orders of the Directorio Estudiantil, I requested Adolf Berle⁵⁷ late last night to have a conversation with some of the principal members of the Directorio. In a long conversation he pointed out that the criticism of the policy of the United States, which they had been so loudly proclaiming during the past week, was quite unjustified and that the charges they had concocted regarding the policy of the Embassy were utterly baseless. I was told by one of the students present that Berle's conversation with them had an exceedingly salutary effect. This morning a representative of the Directorio came to see me to ask if I would be willing to meet with the Directorio tonight. I said that

⁵⁷ On August 31, 1933, A. A. Berle, Jr., special counsel for the Reconstruction Finance Corporation, John G. Laylin, special assistant to the Under Secretary of the Treasury, and James H. Edwards were requested to proceed at once to Habana in order to make certain studies in connection with Cuban economic and financial matters and to report to Ambassador Welles upon arrival.

I would be very happy to do so and that I had repeatedly indicated to the students, all of the leaders of whom were either in exile or in prison during the course of the mediation negotiations, through certain professors of the university identified with the student movement that I would welcome an opportunity to talk matters over with them but that in view of their lack of response I had not felt warranted in pressing the matter any further. I expect to hold my meeting with them tonight at the House of Señor Chibas, who was Secretary of Public Works in the Céspedes Cabinet and is the father of one of the most extreme radical members of the student group, the author of the cable sent to Latin America accusing me of complicity in the officers' plot.

WELLES

837.00/3894 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 16, 1933—2 a. m.

[Received 2:36 a. m.]

265. I had an interview tonight with the full membership of the Directorio Estudiantil. I indicated the reasons for the recent features of our policy towards Cuba and expressed very emphatically our earnest desire to be of friendly assistance should the Cuban people desire it. I stated my belief that in these very grave moments all elements of Cuban public opinion should put all feelings of rivalry and ambition to one side and cooperate for the benefit of the Republic. The interview was extremely cordial and most of the lady members were not unreasonable.

The meeting between the political leaders and Grau San Martín came to an impasse. It has, however, resumed its sessions and the negotiations are still in progress.

WELLES

837.00/4225

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba (Welles), September 16, 1933, 10:30 a. m.

[WASHINGTON,] September 16, 1933.

SECRETARY: . . . If they should reach a stage where they would get together in a broad way, would we want to take up then as rapidly as we could the question of dealing with them further?

AMBASSADOR: Yes. I think under those conditions, it is the only possible solution.

SECRETARY: That would cause the more unintelligent people everywhere, who do not know our real attitude, to see that we were doing our best to go along with the Cubans.

AMBASSADOR: Exactly. Under those conditions I think we could safely waive the maintenance of order question, because no government here will be able to maintain absolute order for some time to come. If we did not, at the present moment it would give us the enmity of groups that have been friendly to us, I believe.

SECRETARY: If we should go ahead, it would give us better teamwork there in the future no matter what happened—and all south of it too.

837.00/3915 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 16, 1933—1 p. m.

[Received 5:25 p. m.]

266. At the meeting between the political leaders and Grau San Martín which commenced last night at 6 o'clock and with a recess terminated at 3 o'clock this morning, Colonel Mendieta acted as principal spokesman and had at all times the unfaltering support of Dr. Martínez Saenz of the A.B.C.; General Menocal on behalf of his own party; and the delegates of the O.C.R.R. Dr. Miguel Mariano Gómez pursued his usual policy of taking neither one side nor the other but made it very evident, however, that he realized that the present government could not continue in power. Colonel Mendieta stated to Grau San Martín that the sole hope remaining to save Cuba was the cooperation in the national government of all of the important political groups and factions in the Republic. He stated that the present government represented nothing except the students; that it had the opposition of all the principal parties as well as financial and commercial interests; and that its continuation was meeting with increasing hostility in all of the provinces of the Republic. He concluded by saying that Dr. Grau San Martín must present his resignation as President and that then by common agreement a government of national concentration could be set up. He made it clear that none of the opposed parties intended to designate any specific person for the Presidency or for any other office but were willing to enter discussions with an open mind.

Grau San Martín assumed his usual attitude of insistence that his government was supported by an enormous majority of the people but stated that he would consider the proposals offered and meet with the political leaders tomorrow, Sunday, to deliver his reply.

In my conversation with the members of the student group last night I gained the very distinct impression that the three or four real leaders of the Directorate were weakening materially in the uncompromising attitude they had heretofore taken. They are gravely worried by the fact that the soldiers are no longer inclined to obey any orders issued and that the labor agitation seems to have passed beyond the control which they had deluded themselves they possessed. After having left the meeting, perhaps the most prominent of the students stated to me that he felt a solution was necessary and could be arrived at. The Department will understand that Grau San Martín is entirely under their orders and whatever decision they reach he will be forced to abide by. The student directorate contains 30 members of whom about 4 are girls and the rest men ranging from 20 to 30 years of age. The general impression I gained was one of complete immaturity, of a failure to grasp even in a rudimentary sense the grave dangers which the Republic confronts and a feeling of almost impermeable self-satisfaction. I am having Berle explain to three or four of them today who have some slight grasp of economics just what the Cuban financial and economic picture really is; that the American companies—public utilities, importers and sugar mills—can not and will not do business under present conditions; that the situation of the Cuban Treasury is such that it will be empty within a period of between 2 weeks and a month; that the food supplies in Habana and the other ports are barely sufficient to last for 10 more days; that the Communist wave is spreading with the utmost rapidity and facility throughout the country. Once they [realize?] these very obvious and simple facts, I am inclined to think that the already shattered morale of the student leaders will be further weakened and a more patriotic and conciliatory attitude will be adopted.

As an indication of the fact, which is presumably not grasped by the American public, that the actual control of the government of Cuba is today vested solely in the hands of this group of immature students the following incident which occurred yesterday is illuminating.

The American Electric Company refused to shut off the light and power connections of the National Hotel without a written order from the government, which was not forthcoming. A group of the leading students thereupon proceeded to the office of the Secretary of War and demanded an escort of soldiers in order that they might go to the office and the power plant of the company and either take control themselves or wreck the buildings. Upon the refusal by Colonel Aguado to agree to their request they broke up the furniture in his office and told him to leave his office and not return. The Secretary immediately resigned. Incidents of this character, which are taking place in Habana, are, of course, occurring in every part of the Republic.

In conversation with me last night they were both courteous and deferent and the students responsible for the sending of cables both to the United States and to Latin America accusing me of various crimes and misdemeanors apologized profusely for the action they had taken which they said was due "to the excitement of the moment".

They feel that recognition by us is not something which we are entitled to determine for ourselves but that it is on the contrary their right to be accorded recognition and that by our failure to recognize we are defrauding them of something to which they are legitimately entitled. On this feature, of course, I merely reiterated the statement issued by the Secretary 2 days ago and emphasized the fact that in my judgment the present government had not demonstrated that it counted upon the support of the Cuban people nor that it was maintaining public order.

The surprisingly friendly attitude shown towards me was in part due, in my belief, to their realization that recognition by the United States Government is essential to any government in Cuba and further to a desire to express a feeling of regret for the unwarranted and unjustifiable criticism directed against this Embassy.

WELLES

837.00/3911 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 17, 1933—1 a. m.

[Received 3:42 a. m.]

270. Colonel Mendieta and Dr. Martínez Saenz have just asked me in behalf of all the groups opposed to the present regime which now include every party except that of the students that they will inform Grau San Martín in their interview Sunday afternoon as follows:

They will accept as Provisional President any impartial Cuban of national reputation provided he is not under the domination of the Student Council; they will agree to recommend men of similar qualifications for Cabinet positions so that the Cabinet will have no political tinge; if a government can be formed in this manner they will support it consistently and actively until a new constitutional government can be inaugurated; they will under no conditions support Grau San Martín nor any government selected by and solely responsive to the Student Council.

I have arranged for an unofficial and private interview with Grau San Martín in the house of a friend early tomorrow morning. At my request Berle has seen him and outstanding members of the Student Council this evening to make entirely plain the fact that the

Republic is on the brink of economic, financial and social disaster and that immediate action is imperative if the situation is to be saved.

The members of the original revolutionary junta of five have now come out against Grau San Martín and are insisting upon the necessity of the constitution of a national government to meet the existing grave emergency.

WELLES

837.00/3908 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 17, 1933—2 p. m.

[Received 6:40 p. m.]

271. I have just finished a secret conversation of 2 hours' length with Grau San Martín at a friend's house.

I told him that I had requested Berle to see him last night in order that he might realize how desperately serious the situation had become and how rapidly dangers of every kind were increasing both in number and in extent. I said that in my judgment confidence in his Government was daily diminishing and the attitude now assumed by financial, commercial and agricultural elements in refusing to pay taxes, in closing down or in canceling orders wherever possible to do so, and in protesting publicly their opposition to a continuation of the present regime must certainly convince him, as it had me, that the Government was not supported by exceedingly important elements in the country. I said that in my opinion lack of confidence was not directed in any sense against him personally nor most of the men with whom he had surrounded himself but in the basic fact that his Government had been installed as the result of a mutiny in the Army which in itself shattered all confidence in authority and in the second place that it was responsive solely to one numerically small group in the country, namely, the student group. I called his attention to the fact that I was constantly receiving accurate information from all over the Republic and that no matter how often his Government might announce that order was being maintained, I knew, and I had no doubt that he knew, that disorders were increasing every moment and that neither the lives nor the property of Cuban citizens at the present time were safe and I was by no means certain that the lives and properties of American citizens or other foreigners were safe except in those ports where American warships were stationed. He admitted this fact quite frankly. I then referred to the official declaration regarding recognition issued by my Government in Washington 4 days ago.⁵⁸ I told him that in my

⁵⁸ See telegram No. 96, September 11, midnight, to the Ambassador in Cuba, p. 424.

judgment none of the requisites which he [*sic*] had mentioned in that declaration existed in his government; that the government did not have the support of the Cuban people other than that of a relatively small group; that public order was most decidedly not being maintained; that the government certainly was not stable and that no government could be considered as carrying out the functions of government when, as I had no doubt he knew, a great number of the provincial and municipal internal revenue offices were now filled by soldiers who were pocketing such few receipts as might come in and when furthermore it was plainly apparent that at the same time that the government did not collect revenues it likewise did not have sufficient funds in reserve to meet the ordinary daily charges upon it for more than an extremely brief period.

At this point he argued with me regarding popular support leaving the other features of my statement uncontroverted. He said that every one in the country would support the government if the United States would accord recognition. I reminded him that our recognition could not in the first place be employed by him as a means of obtaining popular support but was a matter which rested entirely within our own sovereign discretion and that we did not, in justice to the Cuban people, intend to exert that power as a means of attempting to keep a minority group in control of the Cuban government.

I told him that my conversations with the leaders of the really important political groups opposed to his regime had convinced me that they were unanimously in accordance with the main features of the program which he had announced as the ideal of his government and of the student group and that on that point consequently there was no question at issue. I told him, however, that they all felt that the present government had been selected by the students and that the members of his Cabinet were subservient to every whim of the students; and that they felt that no government of this kind could either last or even attempt to carry out the program which it had set for itself. I asked him in the true interest of the Republic in this moment of gravest emergency what possible objection the student group or he himself could have to a government of concentration composed of men who were not active politicians and who were individuals of high standing and reputation who might be indicated by the various opposition groups because of the fact that they had confidence in them which confidence they did not have in most of the members of the present Cabinet.

In his reply Grau San Martín adopted an extremely conciliatory attitude. He said that he believed such a solution was necessary and that he himself favored it. He said he recognized that practical considerations must be taken into account and that at a meeting with

the political leaders this afternoon he would maintain that attitude since he did not consider that individuals were of any importance in comparison with the necessity of saving the country. The attitude so expressed to me is, of course, exactly the reverse of what he has previously repeatedly said to the political leaders in past conferences. It was very apparent throughout the conversation that Grau San Martín was extremely apprehensive. When I touched upon the subject of the Army and the conditions in the Army and the imminent danger which I foresaw from the fact that the sergeants and soldiers now felt, quite correctly, that the real control of the country is in their hands and that they can exercise such control whenever they see fit, it was apparent that that question was the cause of his apprehension. He told me that Batista wanted to be President but that he thought that Batista would try to gain popular support for the coming elections among the laboring classes and would not now attempt a further *coup d'état* in order to install himself in the Palace. He admitted that Batista "had to be handled" and that no orders could be given to him with any expectation of their being carried out. He said there was no alternative whatever to leaving Batista in his present post as Chief of Staff and that if any attempt were made to remove him the Army would at once become unmanageable. I reminded him that in my previous conversations with him he had expressed the opinion that the sergeants and soldiers who had joined in the mutiny were so pure in mind and were so devoted to the ideals of the students that they had no ulterior ambitions. He told me that he was willing to admit that he had been gravely mistaken on this point.

The Department will easily gather from this summary of my conversation how utterly impractical and visionary Grau San Martín is and how little hope of success there can be from a government controlled by him and by the students. The effects of his present apprehension, however, will make a compromise this afternoon more likely. The meeting referred to will be held at 3 o'clock and upon receipt of information as to the result of such meeting I shall telegraph the Department.

WELLES

837.00/3914 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 17, 1933—midnight.

[Received September 18—1: 05 a. m.]

273. The meeting between Grau San Martín and the leaders of the political parties lasted 5 hours. The former stated he was willing to present his resignation but would only resign provided the Army and

the Student Council accepted his resignation as well as the political parties. An agreement in principle was reached on the program of government as well as on the constitution of a national concentration Cabinet.

The leaders of the opposition groups are now in session to determine whether they will insist upon Grau San Martín's resignation or whether they will support him, provided a new Cabinet is created in which they have confidence. They will meet again with Grau San Martín tomorrow morning at 9 o'clock to reach a final decision.

I have repeatedly today urged upon all the need for unanimous cooperation and joint support of a national government. The general situation in the country becomes hourly more serious. Even if a national government is at once constituted and we determine to accord recognition the most immediate and effective assistance on our part may not be sufficient to avert the dangers I foresee from the social revolution which is taking place and from the entire breakdown of discipline which has occurred both in the Army and among civil authorities.

WELLES

837.00/3934 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 18, 1933—1 p. m.

[Received 2:45 p. m.]

275. My 271, September 17, 2 p. m.; and 273, September 17, midnight. The session of leaders of the political groups opposed to the government sat until early this morning. It was attended by the leaders of the Unión Nacionalista, A.B.C., O.C.R.R., Menocalistas, as well as by Miguel Mariano Gómez in representation of his own party. The determination was reached that the parties represented would act jointly and present a united front on all matters at issue. Gómez has decided to join the opposition groups without further hesitation and in confirmation of this decision read a letter addressed by him to Grau San Martín in which he maintained that the government neither had popular support nor was able to maintain order and, furthermore, attacked him bitterly for the hostility demonstrated by the governmental group towards the United States and the policy followed by the Roosevelt administration and this Embassy.

It was decided that under no conditions would they support Grau San Martín as President in view of the fact that he is generally considered in great part responsible for the crisis in which the country has been plunged. There was no difference of opinion as to the pro-

gram to be followed by the Provisional Government and the acceptance in the same manner of a non-political Cabinet. They further decided that they would hand their written reply to Grau San Martín this afternoon at 2 o'clock but would refuse to have further conferences with him.

It is highly unlikely that Grau San Martín and the students will give in. However, from the reports I have received this morning, the student leaders are more reasonable than Grau San Martín himself.

The political leaders are decided that no government can govern the Republic so long as the students dominate the political life of the country and are not in the university where they belong. They furthermore believe that Batista and the Army will not continue to lend support now that it is evident that public opinion throughout the Republic has crystallized strongly against the government and that under these conditions recognition from the United States will not be forthcoming. They feel that he will either seek an understanding with the political parties to oust the Grau San Martín regime or, failing that, seek to install himself in control of the government. In the latter contingency they seem to believe that the student groups will be definitely eliminated by the Army and that in this manner this disturbing element will be removed from the scene. Those of them who have personal contacts with Batista appear to be very confident that a direct understanding with him is possible and will avoid the danger of a military dictatorship.

One healthy sign at least seems to have appeared and that is that the leaders of the political parties have reached the conclusion that the Government of the United States is not going to impose a solution and that the responsibility of finding a solution now rests upon their own shoulders. I am more than ever confident that the wisest policy for us to pursue is to keep our hands off except insofar as the protection of American lives is involved. If the solution is long postponed it will be difficult to lift Cuba from the economic and financial prostration towards which it is rapidly headed. It is also within the bounds of possibility that the social revolution which is under way cannot be checked. American properties and interests are being gravely prejudiced and the material damage to such properties will in all probability be very great. All of these contingencies seem to me preferable to intervention. By intervention we not only would seriously jeopardize our continental interests but we also would once more give the Cuban people and particularly the Cuban leaders to understand that they do not have to assume the responsibility for their own lack of patriotism or lack of vision, and that the United States Government stands always ready to repair the damage which they

themselves cause their own country. It is my sincere belief that Cuba can never become a self-governing republic so long as this feeling persists. *Let me be understood clearly*

WELLES

837.00/3936 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 18, 1933—midnight.

[Received September 19—2:33 a. m.]

277. At 7 o'clock the leaders of the political groups presented their ultimatum to Grau San Martín. They demanded the resignation of his government both on the ground that it had come into being through mutiny in the Army and because the overwhelming majority of the Cuban people were opposed to it. They proposed the adoption of the following plan:

1. The creation of a nonpartisan government composed of individuals neither active in politics nor prominent in the direction of revolutionary groups.

2. The appointment of the members of such government to be determined by representatives of the following groups:

The Student Council; the University professors; the Unión Nacionalista; the A. B. C.; the O. C. R. R.; the Menocal Party and the Gómez Party.

3. The program to be carried out by such government to be as follows:

A. Reorganization of the Army.

B. Energetic measures for the protection of life and property.

C. Immediate solution of the state of anarchy existing in relation between capital and labor.

D. Recognition by the United States.

E. Determination of questions involving foreign debt. [Apparent omission] the sugar industry.

F. The appointment of a legislative council to legislate conjointly with the Provisional Government, such council to consist of 30 members and to enact following measures.

G. Creation of a special tribunal to pass on all crimes and misdemeanors involving the Machado Government.

H. Convocation of a constitutional convention within 6 months after installation of government; such convention to meet within 6 months after date of convocation.

I. The organization of political parties, the enactment of a new electoral code and the taking of a new census.

J. In general the promulgation of all measures governing the functioning of the Provisional Government.

Three of the members of the original revolutionary junta of five, Irizarri, Franca and Portela are attempting tonight to persuade the Student Council to agree to this compromise or some solution based

upon it. About half the members of the student leaders are now favoring compromise, at the same time two of the political leaders are having a secret meeting with Batista to seek the Army's neutrality in this controversy and to guarantee him and his associates amnesty and other assurances he desires.

At this moment there appears to be a real effort to effect an agreement.

WELLES

837.00/8959 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 19, 1933—4 p. m.

[Received 5:55 p. m.]

279. My 277, September 18, midnight. I am informed by one of the persons present when the reply to the leaders of the political groups was read to Grau San Martín and to the members of the Student Council that after considerable discussion Grau San Martín announced his intention of presenting his resignation to the Army and to the students and not to the groups opposed to his regime but that he intended in any event to resign his office. As he started to rise from his chair to end the conference, Escalona, one of the leaders of the students who was standing behind him forced him back into his chair by physical force and told him that he was going to remain as President as long as the students desired him to whether he himself wished to or not. Varona, another of the student leaders, was so incensed by Grau San Martín's statement that he showed his displeasure by breaking several pieces of furniture in the room where they were sitting. These incidents are merely indicative of the manner in which the government is conducted.

At dawn this morning Colonel Juan Blas Hernandez, the revolutionary leader whom Machado was never able to suppress, commenced a revolution near the town of Morón in Camaguey Province. He is accompanied by about 300 men none of whom are well armed. Batista sent immediately a special car of soldiers and students to that region to attempt to intercept Blas Hernandez. A further revolutionary movement is imminent in the city of Santa Clara.

Grau San Martín and the Student Council are now in conference drafting their reply to the ultimatum presented by the political leaders last night. I learn on good authority that approximately half of the student leaders are in favor of accepting the compromise suggested but that it would seem probable that the more radical among the students will prevent this saner opinion from making itself effective.

WELLES

837.00/3970 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 20, 1933—2 p. m.

[Received 5:15 p. m.]

285. My 279, September 17 [19], 4 p. m. Dr. Santos Jimenez, chief political adviser of Miguel Gómez, advises me that certain of the leaders of the Student Council are in conference with Gómez for the purpose of having him serve as intermediary between the government and the leaders of the opposition groups to attempt to work out a solution for a national government based upon the ultimatum presented to Grau San Martín by the opposition leaders. In view of the very strong stand which Gómez has now taken against the government and of his support of the attitude taken by the other political leaders this move is significant. All evidence seems to point to a general weakening on the part of the students with the exception of two or three of the most radical members.

It has been very noticeable during the past 3 days that the members of the government and of the students themselves have ceased entirely their attacks upon the United States and upon this Embassy. A demonstration consisting of about 3,000 persons, many of them ordinary street loiterers and the rest university and high school students and members of a few heterogeneous groups such as the Lithographers Union and the women revolutionists, marched to the palaces yesterday afternoon as a sign of their support of the government. Grau San Martín and several of the students made speeches to the crowd but in none of their speeches was there shown any hostility to the United States. The same change is noticeable in the radio propaganda speeches emanating from governmental sources.

In the interior evidence of armed and concerted opposition to the government is increasing. All evidence I have been able to obtain in spite of the strict governmental censorship tends to confirm the fact that the revolutionary government started by Blas Hernandez is gaining force and that the number of men now supporting him has increased to over 500. Two other local leaders in Santa Clara Province affiliated with the Unión Nacionalista have come out in revolt with approximately 50 supporters each.

The American Consul at Antilla informs me by telephone that he is advised Major Balán has risen in revolt in Oriente Province with approximately 800 men and apparently sufficient arms; that he took possession of the town of Gibara yesterday and is marching on Holguin today.

To the great relief of the more moderate residents of Habana the economic corporations comprising all of the financial and business interests of Habana which have organized during the last few days in

determined opposition to the government have agreed to postpone their threatened lockout. It is my belief that had the lockout been declared immediate sacking would have taken place and a general strike would have been declared which unquestionably would have played into the hands of the Communist leaders.

My general impression of the situation this morning is that the prospects of a national provisional government are decidedly more favorable. The revolutionary outbreaks, while bad in themselves should the movement be long continued, have the effect of weakening the attitude assumed by the students and of breaking down resistance on the part of the disorganized Army, many of whose units were forced into the mutiny against their better judgment.

WELLES

837.00/3982 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 21, 1933—7 p. m.

[Received 9:35 p. m.]

289. I have just concluded an interview with Batista. He expressed this morning the desire through an intermediary to have a conversation with me. His attitude throughout the conversation was extremely reasonable and he repeatedly emphasized the fact that neither the stubbornness of the Student Council nor that of Grau San Martín should be permitted to stand in the way of a solution of the immediate political problem. It was very obvious, from my talk with him, that the students and presumably Grau San Martín himself have misled Batista as to the attitude of the United States Government since September 4th. I made clear to him our policy, convinced him that we have no prejudice and no partiality and emphasized the fact that we would welcome any government in Cuba no matter by what individuals it was composed which fulfilled the requirements made clear in the official declaration of the Secretary of State last week.

He expressed the belief that solution was imperative but that some solution must be found which would not result in open hostility on the part of the students and at the same time not result in open hostility on the part of the important groups and factions opposed to the present regime. He expressed rigorous opposition to all communist propaganda and activities.

Antonio Mendoza, Dr. Granados of the Rotary Club of Habana, and Batista's aide, Captain Ferrer, were present at the interview. At its conclusion it was proposed by Granados that Batista exert his influence with the students and with the present regime so that as a

counter-proposal to the ultimatum delivered by the groups opposed to the present government a list of names of five non-political Cubans should be presented from which the opposition groups will select one name to replace Grau San Martín as Provisional President, such individual then to appoint a neutral Cabinet composed of individuals acceptable to all concerned. This suggestion met with Batista's entire concurrence and he stated that he would at once support it with the students and members of the present government. I made it thoroughly clear that I had not come to the interview to make suggestions as to the nature of the formula and that my Government had no desire to offer its views as to how a solution should be found but that on account of our deep concern, because of the gravity of the situation we were keenly anxious that all groups and parties in Cuba should come to a political understanding so that a government might exist which would have the support of all.

The influence of Batista at this time is, of course, very powerful. He appears to have increased his control over the troops in Habana although he complains bitterly of the attempts which are being made by the opposition to impair the loyalty of the soldiers to him. I am by no means confident that he can force the students to accept his point of view in which I think he is sincere. A willingness to compromise on such a basis as that now proposed will, I think, be demonstrated by all of the opposition groups except that of General Menocal. The conversations which will ensue, as the result of the initiative which will now be undertaken by Batista, will commence tonight and presumably continue throughout tomorrow. It is my considered judgment that the probability of a favorable outcome would be greatly enhanced if the President himself were willing to address a message to the Cuban people. In my opinion the extreme gravity of the situation warrants this step. It will be recalled that the message delivered to the people of Cuba by the President on the 1st of July last⁵⁹ met with an exceptionally favorable response. I believe that a message now would be welcomed by all except the professional agitators and those who are opposing friendship with the United States for ulterior motives and that it might well have a decisive effect. I wish, therefore, to present to your consideration and to that of the President the desirability of his issuing a statement based upon the following facts, and I would like to emphasize that if such a message is to be sent it should be made public within the next 48 hours. My suggestions are as follows:

"1. There exists in Cuba today a situation where it is apparent that not only is public order not being maintained but that there is likewise a rapidly increasing disregard for the protection of individual and property rights guaranteed by the constitutions which have been

⁵⁹ See telegram No. 49, June 21, 5 p. m., to the Ambassador in Cuba, p. 311; also telegram No. 103, July 1, 1 p. m., from the Ambassador in Cuba, p. 317.

adopted by the Cuban people and reasserted in the permanent treaty between the United States and Cuba.

2. The economic condition of the Republic is fast verging upon complete prostration.

In the state of uncertainty and confusion which now obtains, confidence on the part of financial and commercial interests operating in Cuba has been seriously impaired; the import and export trade has been partially paralyzed; the agricultural production of the nation upon which in great part the prosperity of the Republic rests has been very largely checked; unemployment as the logical result of such conditions has mounted rapidly until such estimates as can be prepared show that approximately one-third of Cuba's wage earners are unemployed.

3. The financial condition of the Cuban government is rightly a cause for the gravest disquiet. During the past 2 weeks a deficit in the collection of normal revenues has steadily mounted and it is obvious that the ordinary obligations of the government cannot long be met.

4. It is very plain that in order to counteract such conditions which are a matter of just and friendly concern to every republic of the continent and in particular to the Government of the United States because of the traditional ties between our two countries, stability in government must be assured. In the disturbed state of the political, economic, and social phases of Cuban life which now persists, such stability can only be secured if the Cuban people support and have confidence in their government.

The Government of the United States has officially declared it would welcome the creation of any government in Cuba which was responsive to the will of the Cuban people, which was capable of maintaining public order, and which consequently could carry out the functions of any stable government. Those conditions do not now exist.

We favor no group nor party in Cuba in preference to any other. We sympathize deeply with those ideals of social reform and honesty in government which so many of the important factors in Cuba's public opinion of today are proclaiming. We hope they will be carried into effect. But the Government of the United States believes that what is imperative in this moment of grave crisis is not alone the determination of a far reaching program but the immediate cooperation of all groups in Cuba in the formation and maintenance and support of a government responsive to the will of the people lest all government in Cuba be destroyed. No party advantage, no political strife is the issue at this time. On the program of the provisional government all groups are in accord. The issue is, on the contrary, the urgent need for the support by the people of a provisional and temporary government which can prepare the way through the carrying out of this program for the installation of a constitutional government elected by the majority of the Cuban people.

It would afford the American Government and people the deepest satisfaction if all representative groups in Cuba through their responsible leaders were, without delay, in the interest of the Republic of Cuba, to lend their support to a provisional government in which they all have confidence. We would not only welcome such a government but we would likewise tender it all possible assistance in these difficult moments should such assistance be desired of us".

WELLES

837.00/3990 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 22, 1933—3 p. m.

[Received 5:45 p. m.]

291. My telegram No. 289, September 21, 7 p. m. At the same time that Batista was engaged in conversations yesterday evening with a view to forcing a compromise agreement, Dr. Miguel Mariano Gómez, together with one or two of the most influential professors of the university, had a long conference with the Student Council for the same purpose. As the result of the latter negotiation the leaders of the student group definitely agreed to propose the following compromise to the leaders of the opposition parties:

1. The retention of Grau San Martín as President.
2. Appointment of a junta consultiva composed of 20 members, one-half of which to be selected by the opposition groups, and the remaining half by the government supporters to function as a legislative council.
3. The junta consultiva to determine all appointments to the Cabinet, including sub-secretaries as well as directors of bureaus in the Executive departments, all such appointments as are recommended to be made automatically by the President; no removals to be made automatically except with the consent of two-thirds of the members of the junta consultiva.

Mendieta is inclined, in behalf of the Unión Nacionalista, to agree to this compromise; it is likewise acceptable to the leaders of the O.C.R.R. The other groups of the opposition are opposed to any decision which involves the retention of Grau San Martín.

With reference to my conversation, by telephone this morning with the Secretary, I wish to call particular attention to the fact that revolutionary outbreaks are increasing in number and extent. I am advised this morning that a revolutionary movement of considerable importance has commenced in the southeast portion of the Province of Matanzas. Notwithstanding the government's reports to the contrary the revolutionary movement commenced by Blas Hernandez has not been checked but is on the contrary increasing in extent. The revolutionary movement in Oriente Province continues. If a compromise is rapidly reached, which all of the opposition groups will publicly support, these revolutionary movements will cease. If, on the other hand, no agreement is now reached or it is long postponed the revolutionary movements will gather momentum, extreme bitterness of feeling will be engendered as the result of casualties and it may be exceedingly difficult to prevent a continuance for an indefinite period of general guerrilla warfare. It is for that reason that, in my belief, it is wise policy for us to do everything we can

to further a speedy agreement by all influential groups in Cuba. I realize that professional agitators might seize any statement issued by the President as a pretext for renewed anti-American propaganda. On the other hand, an enormous majority of the Cuban people would not only not resent but would welcome an appeal in the name of the American people to all Cubans to support a provisional government satisfactory to all on the program of which all elements are already in entire accord. I fear that the Department may have the impression that a statement of this kind might be considered as favoring one faction as against another. That, of course, is not the case. What Cuba requires until national elections can be held for a constitutional government, is a provisional and temporary government which has the confidence of all so that the usual claim of partiality or intimidation during the electoral period cannot be raised. If the Cubans cannot reach an agreement as to the formation of a temporary government which possesses the confidence of all it will be readily understood that during the electoral period disturbances will be bound to occur. With a view to that future danger it is most decidedly to our own interest to foster in every possible way the creation now of a government in which all elements will participate and in which they all feel they can repose confidence before increased revolutionary activities make such agreement more difficult, if not altogether impossible.

WELLES

837.00/3991 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 22, 1933—11 p. m.

[Received September 23—2 a. m.]

294. At their interview this afternoon with the university professors who were proposing a solution based upon the retention of Grau San Martín as President and the selection of a national Cabinet both the Student Council and Grau San Martín reversed completely the conciliatory attitude assumed last night and stated they would agree to no compromise whatever. At the same time Batista was holding an interview with Mendieta and Gómez upon both of whom he made an extremely favorable impression. He stated that the solution proposed yesterday (reported in my telegram 289, September 21, 7 p. m.) should be acceptable to any Cuban who thought first of his country and that he would again see the Student Council tonight at 9 o'clock and deliver an ultimatum to them in the sense that they must accept it. After this interview he will meet with the leaders of all the opposition groups to report the result. All of the opposition groups have now decided to support any government formed as the result of such solution.

In the meantime the revolution gathers strength in Matanzas Province. It is reliably stated that the cities of Cardenas and Matanzas will join the revolt tonight with the support of the troops stationed there.

The students this afternoon refused to permit a truck loaded with food for the officers in the National Hotel to enter although the soldiers on the truck bore a written order from Batista authorizing entrance and although an officer by order of Batista directed the entrance of the truck. Since officers in the hotel only have food for one day more they will presumably try to fight their way out tonight or tomorrow. There is general apprehension in Habana tonight; all leaders of the opposition group have however informed me that they have strictly forbidden any counter movement so long as there is any hope of a peaceful solution.

WELLES

837.00/4000 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 23, 1933—6 p. m.

[Received 7:35 p. m.]

297. My 294, September 22, 11 p. m. The interview of Batista with the opposition leaders was postponed until 3 o'clock this afternoon. The students have learned of it and have insisted upon being present.

I have very little hope of any agreement being reached owing to the interposition of the Student Council. The latter at half past 2 o'clock this morning issued a statement rejecting all compromise insisting that patriotic Cubans should support the present government and making it very plain that the students themselves and no others are the government.

Owing to peremptory orders issued by the political leaders here last night a halt was called to the revolutionary movement in Matanzas Province. The revolutionists, however, have retained their arms and are awaiting developments.

WELLES

837.00/4001 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 23, 1933—11 p. m.

[Received September 24—12:55 a. m.]

299. The conference between the student representatives and the leaders of the political parties lasted 6 hours. There were present

Batista, three members of the Student Council, Mendieta, Gómez, two representatives of Menocal, Martínez Saenz for the A.B.C., two delegates of the O.C.R.R. and Dr. Coro for the university. Batista took a very strong attitude in line with his position in his conversation with me 2 days ago. After very violent dissension at the outset the discussion took a more constructive turn and it was unanimously decided that a substitute for Grau San Martín should be considered the basis of a compromise. The opposition leaders meet together again tomorrow at 10 o'clock and in the afternoon they will once more discuss a solution with the government's representatives. There appears to be some feeling of optimism on the part of those present as to the possibility of an agreement.

WELLES

837.00/4007 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 25, 1933—1 a. m.

[Received 3:45 a. m.]

304. For the President. My telegrams numbers 289⁶⁰ and 291.⁶¹ I feel that the time has come when I must emphasize my conviction that the statement by yourself suggested in my cable No. 289 is the one remaining chance we have of persuading the Cubans to agree upon a solution of their problem which will offer promise of being satisfactory [to] all groups and which can in any way be regarded as satisfactory to our Government. The entire day of today has been spent by all leaders in joint conference and at the present moment an agreement is as remote as it has been at any time this week. The conference will meet again tomorrow night but all leaders have lost hope that any agreement can be reached of their own initiative. There now remain two alternatives if you decide to refrain from making our position clear by urging a common accord. The first will be a desultory revolutionary movement which will probably take a considerable time before it proves successful and which will impoverish still further the interior provinces and inevitably entail damage to American and foreign properties; the second is the displacement of the present regime by a more radical group in connivance with a portion or the whole of the Army and which will be headed by some professional agitator . . . or some one of the Army sergeants. In the latter event in all likelihood the government would assume completely dictatorial powers and abandon the program for the re-establishment of constitutional government as the result of national elections.

⁶⁰ September 21, 7 p. m., p. 451.

⁶¹ September 22, 3 p. m., p. 454.

While the delay in reaching a solution continues the economic conditions grow steadily worse, the field grows more propitious for Communist propaganda and the breakdown of all semblance of unity or discipline in the Army is fast reaching to point where hope must soon be abandoned of using even a part of the Army again as a national military force.

You know how sincerely I believe in the policy of non-intervention in Cuba. I likewise am convinced that the Cubans can never govern themselves until they are forced to realize that they must assume their own responsibilities. But you also appreciate the psychology of the peoples of the Caribbean Republics. We have been generous and we have shown the utmost patience. The impression is fast growing that our attitude is due to fear of public opinion in Latin America and that we will countenance a complete disregard by the Cubans of any international or individual rights we may possess here. Respect for us is diminishing and the belief is rising, sedulously fostered by the radicals, that the United States can be flouted with complete impunity. That attitude in my judgment is due to the mistaken impression that our continued abstention from announcing a more definite stand than we have is caused by a policy of weakness rather than by the policy of generosity and non-interference which we have in reality pursued.

I feel very strongly that a statement of the nature suggested in my telegram No. 289 would have a decisive effect. I do not think it is too late. But if some measure of that kind is not taken I fear that the situation here will take a turn which can only be regarded as disastrous to the Cuban people themselves as well as to our national interests.

WELLES

837.00/4022 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 25, 1933—11 p. m.

[Received 11:47 p. m.]

307. Colonel Juan Blas Hernandez who had attempted to lead a revolution in Santa Clara Province during the past 10 days arrived in Habana this morning to make an ostensible peace with the Grau San Martín government. The motive for his apparent surrender is the fact that he was ordered to do so by Colonel Mendieta whose supporter he is on the ground that no satisfactory plans have as yet been formulated for a nation-wide revolution since there is still the possibility of a peaceful solution and because Blas Hernandez has neither sufficient arms nor ammunition for a successful revolt.

WELLES

837.00/4023 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 25, 1933—11 p. m.

[Received September 26—12:22 a. m.]

308. The negotiations between the leaders of the national political parties and the representatives of the Grau San Martín regime have definitely broken down. At a meeting this morning of all political leaders it was decided that they would act jointly in all negotiations and that they would under no conditions accept Grau San Martín as President on the ground that the public had no confidence in him, that he had already proved thoroughly unfitted for his task and because he was merely the puppet of the Student Council. They agreed to accept any other formula of solution that the Government and Batista might propose, including the suggestion by the Student Council of the designation of Grau San Martín's substitute in the Presidency, provided that a national concentration Cabinet was formed. I was advised that during the debate the students admitted quite cynically that the attacks which they had directed against the United States and against the Embassy had been made solely for the purpose of creating popularity for the government and with full realization that there was neither truth nor motive for the charges alleged.

The opposition leaders have determined to hold no further conversations with the students or with Grau San Martín and have designated Antonio Mendoza and Dr. Granados of the Rotary Club as intermediaries should the government delegates desire to treat further with them.

WELLES

837.00/4007 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 26, 1933—5 p. m.

110. Your 304, September 25, 1 a. m. I spoke to the President yesterday evening on the question of the suggested message but he said that thus far he has not felt justified in sending another message.

HULL

837.00/4046 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, September 27, 1933—1 p. m.

[Received 3:05 p. m.]

311. Professor Cuervo Rubio, who was at first identified with the Student Council and the present regime and who determined to oppose

it about a week ago, last night on the radio delivered a bitter attack against it. He stated that the administration not only lacked the support of all of the political parties but was also opposed by the majority of public opinion. He criticized the regime for the adoption of measures in imitation of those employed by General Machado. He concluded by condemning the government for encouraging propaganda against the Roosevelt administration and its diplomatic representatives here and stated that "The American Government is demonstrating its greatest respect for our independence and its vehement desire not to intervene". He urged as the only possible solution a concentration Cabinet supported by all factions.

Dr. Cuervo Rubio was joined in his attacks on the present regime by prominent individuals who have formerly been identified with the administration including representatives of the Unión Revolucionaria and of the Feminist Alliance both of which groups formerly supported Grau San Martín.

Sergio Carbo this morning asked if I would consent to meet him this afternoon in order to discuss the situation. I have announced that I would be willing to do so. I am informed that realizing that the Grau San Martín government cannot long continue he is associating himself with Batista in order to prepare to expedite its fall.

WELLES

837.00/4069a : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, September 28, 1933—8 p. m.

112. From Caffery. Dr. Carlos Finlay came to see me informally this morning. I told him that we are not interested in what individuals make up the Cuban government but we are very much interested in seeing a government formed capable of maintaining law and order throughout the Island. I told him that I see no reason why a concentration government able to carry out the normal functions of government can not be formed.

Dr. Finlay, and Marquez Sterling who was also present, stated that they would take immediate steps to work to that end.

HULL

837.00/4082 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 1, 1933—6 p. m.

[Received 7:20 p. m.]

328. Martínez Saenz informed me this morning that the Uruguayan Consul here had advised him earlier that he and the Chargé d'Affaires

of Chile and the Chargé d'Affaires of Mexico were offering to mediate between the government and the opposition to help find a solution of the present problem. He told me he had replied that he felt that no effort of this kind would be successful unless I agreed to join and requested my opinion. He also said he was confident Grau San Martín would not accept the offer.

I replied that I would of course welcome any effort by the diplomatic representatives of American Republics to help the Cubans reach a solution of their difficulties and that I could only express my sincere hope for their success; that I appreciated his reference to myself but that I felt it would be advisable not to raise the question of my participation.

WELLES

837.00/4085 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 1, 1933—11 p. m.

[Received October 2—2:27 a. m.]

329. I had at his request a further interview with Sergio Carbo this afternoon.

Owing to the increased strength which the Army has obtained since the events of Friday the government itself has felt itself correspondingly weaker. There is in the first place a healthy reaction among the soldiers themselves against those elements in the government and especially those members of the Student Council whom they consider identified with the Communist organization, and in the second place, there is an increasing divergence between those individuals in the government who support the attitude of the soldiers and believe in the necessity of maintaining public order and those who wish frankly to join with the extremist labor and Communist groups. The Army is more united in Habana than at any time during the past month and Batista's position is correspondingly stronger. Owing to his close connection with Batista and his present influence over him Carbo has more power today than the Student Council and consequently than Grau San Martín whose sole support is in the students.

Carbo stated that he had reached the conclusion that a change in the present government was desirable provided such change was predicated from this fusion into a national party of those existing factions which favored the realization of a program of social reform—by this he meant, he explained, a fusion of the A.B.C., the less radical portion of the Student Council, the progressive elements in the Unión Nacionalista and Gómez parties, and the O.C.R.R., such fusion to

support the new provisional government. In reply to my inquiry he stated that any such project must, of course, imply not only the support but the active participation of the Army. He made it clear that the Army leaders were no longer willing to stand the attempt on the part of the students to dominate by emphasizing that the soldiers were already disarming students as well as other civilians and intended to disband the so-called "caskets army" composed of about 2,000 students armed with rifles and machine guns.

I told him that I was heartily in favor of any government in Cuba that could rally popular opinion of real importance and that could prove it was capable of maintaining order and that could inspire confidence in its intent to carry out the general program already agreed upon. I told him further that in my conversations with the leaders of the groups which he had mentioned I had obtained the clear impression that they would agree to the project he had in mind provided they were offered a fair deal; that if he offered them authority as well as requesting their support they would in all probability accede to the suggestion. I told him that I would not agree in any sense further to mediate but that if he and they desired to consult me behind the scenes I was willing to be of all possible service for the purpose of unifying Cuban public opinion in the support of a provisional government in which all classes could have confidence.

He discussed with me at great length the administration's policies in the United States. He asked if the United States would oppose a policy of social and economic reform in Cuba. I stated that in my judgment my Government would not only not oppose but would in every proper manner actively support such a program provided it were carried out with the consent of a majority of the Cuban people through the medium of a constituted government. He promised me he would oppose any move by the present government to declare a moratorium on the foreign debt in the hope that change in the existing situation would result in the creation of a government that would be recognized and which could handle that question in a constructive and friendly manner with the bankers. He told me that in compliance with his promise to me in our last interview a decree would be issued tomorrow ordering the Army to dislodge from any sugar central all individuals other than the employees whom the managers desired to retain and calling for the expulsion from the Republic of all foreign agitators and Communists.

He will begin tomorrow conversations with the leaders of the political parties above mentioned.

WELLES

837.00/4107 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 2, 1933—1 p. m.

[Received 2 : 30 p. m.]

330. According to reliable information two trucks heavily loaded with arms and ammunition broke through the sentries stationed around the National Hotel just before dawn this morning. This incident gave rise to shooting between the officers and the soldiers which resulted in the death of one soldier and the wounding of several others. Shortly after 6 o'clock the soldiers who had in the meantime collected a large force which they had thrown around the hotel opened fire upon the hotel with light artillery. The engagement lasted for the better part of 2 hours as the result of which at least 15 soldiers were killed and a much greater number seriously wounded. At half past 8 Dr. Grau San Martín sent his aide to inform me that the soldiers intended to bring heavy artillery into play in order to force the officers to surrender or else to kill them. He desired to ascertain if there were any Americans still in the hotel. After ascertaining from the manager of the hotel that all American citizens had left I advised him accordingly. Shortly before this time I received a letter from General Sanguily, the commanding officer of the officers, in which he stated that the attack had been made upon the hotel by the soldiers and that the officers were determined to resist it and to bring about the reinstallation of the "legitimate Government of Cuba presided over by Dr. Carlos Manuel Céspedes".

At 7:15 an American citizen employed by Swift and Company named Lotspicht who was watching the fighting from the balcony of his apartment in the Lopez Serrano Apartment House a short distance from the National Hotel was seriously wounded and died an hour later in the hospital to which he had been taken. There is every reason to believe that the shot which resulted in his death was a stray bullet.

At the present moment the firing on the hotel continues and one wing of the hotel had been very badly damaged. An increasing number of troops are being brought into the city from the garrisons around Habana and are being stationed in the neighborhood of the hotel.

The Cuban Red Cross has attempted to obtain a protracted armistice without success. As the result of my suggestion a period of approximately 30 minutes was permitted for the civilians living in the houses immediately adjacent to the National Hotel to remove to positions of safety. Since many of the telephone wires have been cut it has been impossible for me to speak personally to other members of the Diplomatic Corps. I have, however, communicated with the Spanish Ambassador, the Dean of the Corps, through his secretary

and have suggested that certain of the diplomatic representatives of the Latin American Republics might to advantage attempt to mediate between the soldiers and the officers in the hotel in order to prevent not only casualties among the officers and soldiers but likewise danger to the lives of foreigners living in the Vedado district from stray bullets and shells.

So far there has been no counter revolution attempted in this city which, except for the district around the National Hotel, appears to be fairly quiet. Consular reports from all points in the interior show no signs of serious disturbances.

WELLES

837.00/4172

Memorandum of Telephone Conversation Between the Secretary of State and the Ambassador in Cuba (Welles)

WASHINGTON, October 2, 1933.

SECRETARY: Hello, Mr. Ambassador, how is the situation now?

AMBASSADOR: Mr. Secretary, I wanted to call you up a little earlier because I finally succeeded in getting hold of the Spanish Ambassador, and a meeting of the Diplomatic Corps has been called for four o'clock. We are going then as a body to propose, for humanitarian reasons, that a solution be found for a peaceful settlement between the officers and the soldiers.

SECRETARY: How many of the Diplomatic Corps?

AMBASSADOR: Every member of the Corps.

SECRETARY: Have they all agreed?

AMBASSADOR: Yes. They are all entirely in accord. It will simply be a formal way of doing what we have already agreed upon. In the meantime, conditions have been proposed to the officers which I think should be acceptable to them. The conditions are that if they will agree to come out unarmed, five at a time their lives will be guaranteed and they will be given all possible respect but will be held as prisoners until some definite decision is reached—as to what is to happen to them. Under the circumstances, that is the best that can be done.

SECRETARY: Were these conditions proposed by the civil government or by the army?

AMBASSADOR: They were received just from the army.

SECRETARY: At the present time that is all that counts.

AMBASSADOR: Yes. I think that what the Diplomatic Corps will have to do, and I want to speak to you specifically about this, is to support any agreement the officers may come to with the soldiers along those lines. Because if we do not take some action of that kind, there is so much agitation and so much ill feeling that it might

be doubtful if those conditions would be carried out. I think we are perfectly justified, do you not, in taking that action?

SECRETARY: At first impression, that would seem to be the most feasible thing that would be open to you.

AMBASSADOR: Of course, we won't assume any individual responsibility on behalf of our governments, but as the Diplomatic Corps we can lend our moral support.

SECRETARY: The Diplomatic Corps would be acting as a unit?

AMBASSADOR: As a unit, yes.

SECRETARY: At first blush, it would seem to me to be the feasible thing to do. I do not think there is anything else we can do. Caffery and Phillips are listening in and their first impression is the same.

AMBASSADOR: It means that if we do that we may possibly prevent a massacre, and for purely humanitarian reasons I think we are justified in doing so. But I will send you a cable, Mr. Secretary, just as soon as the meeting of the Corps is over and I know what happens.

SECRETARY: What has happened to the Americans in those apartments in the vicinity of the hotel?

AMBASSADOR: A truce was maintained and we got them all out. Automobile omnibuses were sent up there and the Americans were all banded up and are out of there.

SECRETARY: That is a mighty fine piece of work. Phillips and Caffery both said so before I had time to say it.

AMBASSADOR: I am hopeful that now at any rate we can prevent a needless slaughter, and I will work along those lines.

SECRETARY: That proposed action by the entire Diplomatic Corps might lead to some help all along the line.

AMBASSADOR: I am not sure about that, but this preliminary step I think will be very useful anyhow.

SECRETARY: It is very interesting to hear from you, and we are very well pleased with the way you are handling those matters.

AMBASSADOR: Thank you very much. I appreciate it. I will send you a cable as soon as I have the facts to report.

837.00/4112: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 2, 1933—6 p. m.

[Received 10:40 p. m.]

331. The meeting of the Diplomatic Corps, referred to in my telephone conversation with the Secretary, took place at 4 o'clock. There were present, besides the Spanish Ambassador, the Dean of the Corps, and myself, the Ministers of Chile and Paraguay and the Chargés

d'Affaires of Argentina, Brazil, Mexico, Colombia and Venezuela, together with the French Minister. The other members of the Corps either could not be reached by telephone or else like the Ministers of Great Britain and Germany were afraid to leave their Legations on account of the shooting that was going on in their vicinity.

At the meeting of the Corps it was unanimously agreed to authorize the Spanish Ambassador as Dean to obtain an immediate interview with Dr. Grau San Martín in behalf of the entire Corps and request for the sake of humanity an immediate truce between the officers and the soldiers, to continue until some peaceful agreement might be reached between the two contending forces.

It is as yet impossible to locate the whereabouts of Dr. Grau San Martín but if he can be found the Spanish Ambassador will make the representations indicated.

At noon today Batista offered the following terms to the officers: That they were to leave the hotel disarmed in groups of five at intervals of 10 minutes; that they would be taken into custody but that their lives would be guaranteed and their persons would be treated with complete respect. At 3:30, the time limit set by Batista for the acceptance of these conditions, the officers were as yet unwilling to accede and firing consequently commenced.

At a quarter before 5, after heavy firing, the officers surrendered to the soldiers. The soldiers immediately entered the hotel and lined the officers up by twos outside of the hotel grounds. A very large crowd had collected and radical agitators in the crowd endeavored to incite the mob to seize the officers and kill them. In order to prevent the mob from getting closer the soldiers first fired in the air and later on the mob and dispersed it. I understand that the officers are now being taken to Cabana Prison.

Captain Velasco of the General Staff has sent word that the city tonight will be patrolled by soldiers and that complete order will be preserved. During the day very considerable numbers of the lawless element have collected particularly in the Vedado and it will be difficult in my judgment to prevent a considerable amount of sacking and robbery.

WELLES

837.00/4113 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 2, 1933—7 p. m.

[Received 9 p. m.]

332. There has been during the past 2 hours a great deal of shooting throughout the city. At one time the shooting around the Embassy

was considerable as well as at the Palace a block away. So far as I can ascertain it is due in particular to cars filled with opposition groups who drive at all speed about the city firing on soldiers or known adherents of the government and in part to encounters between soldiers and lawless elements.

The circumstance that gives me most concern is the fact that the soldiers are looting the wine cellars of the National Hotel and the probability is that many of them will be dangerously drunk before midnight. I have just sent a message to Batista urging him to place a guard in which he has confidence at the hotel to prevent the soldiers from having access to the wine stored there. The mobs have so far been kept out of the hotel grounds. The report has reached me that while the bulk of the officers were safely transported to the prison a few were murdered by soldiers and a number were shot by the mob while a few who refused to surrender are still in refuge on the top floor of the hotel prepared to fight to the last.

WELLES

837.00/4114 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 2, 1933—9 p. m.
[Received 10:58 p. m.]

333. Batista has just sent me word that he has placed a guard around the National Hotel to prevent any further looting by soldiers and especially distribution of contents of wine cellars. He assures me that the lives of all the officers now in custody will be personally guaranteed by himself and that I may feel confident that order will be maintained in the city tonight.

From all information I can obtain, in view of the difficulty of communications, all sections of the city have been relatively quiet during the past 2 hours.

WELLES

837.00/4119 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 3, 1933—3 p. m.
[Received 5:30 p. m.]

335. It appears to be now established that the following are the casualties in Habana yesterday: of the officers, 14 killed and 17 wounded; of soldiers and civilians associated with them, 80 killed and approximately 200 wounded. It seems to be equally clearly established that none of the officers was killed up to the time of their surrender. Approximately six were killed either by soldiers or by the

crowd around the National Hotel as the result of violent shooting which broke out from an unexplained cause after most of the surrendered officers were already lined up in front of the hotel. Of the remaining officers who were killed, three were killed by soldiers in the truck in which they were being taken to the ferry in which they had to cross the harbor in order to enter Cabana Prison and the remainder at the ferry landing either by the crowd or by the soldiers who were guarding them.

There have been continued rumors last night and this morning that the Student Council and a portion of the soldiers wish summarily to execute the officers who are now in prison. So far as I can ascertain Batista, his own personal supporters, and some of the members of the Government are vigorously opposing this move. I expect to see Batista this afternoon and I shall endeavor to learn what positive guarantees for the safety of the officers he has been able to provide. I feel of course and am sure the Department will concur in my belief, that should there be any real danger of the execution of the officers I will be justified on the grounds of humanity alone, in making the most vigorous representations to the existing authorities against such a measure which would be a blot on the civilization of the continent, for there is absolutely no justification whatever for mass assassination of this character, particularly when there are no charges pending against the great majority of the officers.

WELLES

837.00/4126 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 4, 1933—7 p. m.

[Received 8:25 p. m.]

339. The Minister of Paraguay who leaves tomorrow for Mexico City to which post he is also accredited advised me this afternoon that it was the unanimous opinion of all of the Latin American members of the Diplomatic Corps here, with whom he had been in constant consultation during the past few days, that the policy pursued by the Government of the United States in Cuba was absolutely right and proper. He stated that in his own judgment we had made every possible effort to permit the Cuban people to solve their own problems without interference and that they must assume the sole responsibility for the difficulties with which they are now confronted. He likewise told me that he understood the offer of some of the Latin American representatives here to act as friendly intermediaries had been rejected by Grau San Martín.

WELLES

837.00/4131 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 4, 1933—7 p. m.

[Received October 5—1:32 a. m.]

340. Batista came to the Embassy this morning to see me and I had a conversation with him alone for about one hour and a half.

He gave me in great detail the history of the battle between the officers and the soldiers at the National Hotel. He insists that the causes of the fighting were primarily the continued and successful efforts of the officers to pass arms and ammunition through the lines of sentries around the hotel and, secondly, to the report that had come to him that the officers had planned a concerted revolutionary movement for the afternoon of October 2nd in connivance with other revolutionary groups within the city of Habana. He referred to the conditions which he had offered the officers at noon and to which they made no reply as well as to the fact that the renewal of the fighting at 3 o'clock that afternoon was due to the officers at a moment when he himself was prepared to agree to an extension of the truce until the following morning at least. Finally he assured me that the deaths of officers and soldiers after the surrender of the former was due to firing by the officers and that in the excitement which ensued it was utterly impossible for him to control the soldiers.

He gave me his word of honor upon his official responsibility that none of the officers now in the prisons would be molested in any way. He told me further that in order to provide greater measures of security for them in view of the efforts of the students to stir up the soldiers to insist upon the immediate execution of the principal officers, he had arranged for their removal to the national prison on the Isle of Pines to which they would be taken in groups [of] 20 or 30 during the night so that crowds which might endanger them would not collect at the railway stations. He concluded by stating that while it was utterly impossible for him to avoid the trial of the officers by courts-martial he would postpone such trials for as long a period as might be possible in order that passions might cool and he would further see to it that the courts were composed of lawyers and not of soldiers or sergeants. I made certain requests of him with regard to medical attention for several of the officers who were ill and he assured me that the measures I requested would be carried out.

He expressed the deepest regret for the loss of life of Mr. Lotspicht and to the danger to which various other Americans had been exposed as well as for the damage done to American property. He explained that the death of Lotspicht and the danger resulting

to other Americans was due entirely to the fact that they were in apartment houses from which opponents of the soldiers were shooting and that while he had personally given orders to sacrifice the lives of the soldiers themselves rather than endanger foreign lives it was, of course, impossible to control the soldiers at moments when they were being shot at.

He then told me, in response to an inquiry from me as to whether he intended to permit a continuance of the intolerable conditions which had now existed for the last 5 weeks on the sugar plantations, that the Army would seize all foreign agitators and arrange for their immediate expulsion from Cuba and at the same time imprison Cuban Communistic leaders and would also guarantee the rights of the legitimate managers of such properties.

We then had a protracted and very frank discussion of the present situation in Cuba. He asked me for my advice as well as my opinion and I gave it to him. I told him that in my judgment he himself was the only individual in Cuba today who represented authority. I added that this was due in part to the fact that he appeared to have the loyal support of a large part of his troops and in part to the very determined and effective action taken by the troops in Habana as well as in a lesser degree in other cities against the Communistic and extreme radical elements. This I told him had rallied to his own support the very great majority of the commercial and financial interests in Cuba who are looking for protection and who could only find such protection in himself; that by his refusal to permit Grau San Martín to turn the Cuban newspapers over to the students and the workmen in the newspaper plants he had assured himself of the support of the press; that the leaders of the important political factions with the exception of Menocal, namely, Mendieta, Gómez, Martínez Saenz and Silverio were in accord that his control of the Army as Chief of Staff should be continued as the only possible solution and were willing to support him in that capacity. In some manner it must be evident to him, I said, that the present government of Cuba did not fill any of the conditions which the United States Government had announced as making possible recognition by us and that I felt sure that he would realize that the events of the National Hotel had diminished very materially that very small amount of popular support which the Grau San Martín regime may previously have possessed. I told him further that from my conversations with the representatives of the Latin American Republic[s] here the affair involving the officers had very definitely removed the probability of recognition on the part of those Republics. I emphasized as clearly as I could the position of the present government as I saw it; that it had failed in the 4 weeks in which it had been in office to adopt one constructive measure; that it

possessed far less popular confidence today than when it first came into power; that it was without the support of the commercial and financial interests in Cuba; that without recognition by foreign governments the financial situation of the government was so paralyzed that even if it repudiated every obligation it would not for long be able to pay salaries or function as a government; and that should the present government go down in disaster that disaster would necessarily inextricably involve not only himself but the safety of the Republic, which he had publicly pledged himself to maintain. I concluded by saying that it appeared to me after my conversations with Carbo and with himself that all that stood between an equitable agreement on the part of all important factors in the country (almost all of which supported an identic program for the provisional government) was the unpatriotic and futile obstinacy of a small group of young men who should be studying in the university instead of playing politics and of a few individuals who had joined with them from selfish motives. I urged him in the interest of the Republic of Cuba itself to act as intermediary between the groups now at variance and through the force of authority which he represented in his person to insist that an immediate fair and reasonable solution be found so that Cuba might once more possess a government which had the confidence of all and which would have a fair opportunity to tide over the critical situation which now lay ahead.

Batista most emphatically agreed. He reminded me of his repeated interviews with Mendieta, Gómez and the leaders of the A.B.C. and declared that he was willing to insist on any solution acceptable to all which might gain the support of the important elements in public opinion here. He emphasized the fact that in his opinion Menocal must be left out of any such solution but declared that while the A.B.C. was in his opinion unquestionably conspiring against the Army he felt that the leaders of the A.B.C. were both patriotic and able men with whom he could work. He then, however, expressed the belief that should any rapid change in the government be made it might be difficult to control his troops without further bloodshed which he desired at all hazards to avoid. I told him that, of course, I was in agreement with him on the latter point and that he necessarily was the sole judge of the attitude of his own troops and that the matter of whether one individual or another was in the Presidency or in the Cabinet was a matter of complete indifference to me. I said that what I urged no matter whether Grau San Martín remained in the government or not was that a solution be found which represented effectively the desire of the Cuban people and which at the same time would make it possible for confidence in government to be restored in the Republic. I made it very clear before

he left that I felt that any further *coup d'état* or revolutionary movement from whatever side it came would under present conditions be more prejudicial than beneficial but that it was my considered opinion that [a] swing to the extremely important position which now occupied his influence in obtaining a patriotic solution in these moments of crisis must necessarily be regarded as preponderant.

He asked if I would let him see me frequently during the next few days in order that he might talk over conditions with me. I told him that I would be happy to see him at any time.

The situation as regards my relations with Batista is, of course, anomalous. I feel it necessary to make plain, however, that there does not exist at the present time in Cuba any authority whatever except himself and that in the event of further disturbances which may endanger the lives and properties of Americans or foreigners in the Republic it seems to be essential that this relationship be maintained.

WELLES

837.00/4131 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, October 5, 1933—7 p. m.

113. I have just discussed your telegram 340, October 4, with the President, who desires me to say that it appears to him that public opinion as reflected in the press here seems to regard the capture of the officers as indicating a consolidation of the position of the present government. He also believes that Cuba now is going through a period of storm and stress, and that given all the circumstances, there must be some latitude, on the part of ourselves and of other states, in the application of the customary principles of international practice (e. g. as regards recognition) in view of these conditions.

The Cuban representative here left today at the Department an informal memorandum⁶² setting out that Grau San Martín had authorized him to state that he expects to make changes in his cabinet, giving participation therein to outstanding personalities who would inspire public confidence, "without taking into account whether they are affiliated with any political group or any strictly revolutionary body".

HULL

⁶² Not printed.

837.00/4136 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 5, 1933—midnight.

[Received October 6—4:06 a. m.]

341. Your telegram No. 113, October 5, 7 p. m. I coincide, of course, in the belief expressed by the President that in view of all the circumstances now existing in Cuba there must be some latitude in the application by us of the customary principles governing recognition of a Cuban government. I wish, however, to make it very plain that the capture of the officers does not indicate consolidation of the position of the government but solely a decidedly increased prestige for the Army as distinguished from the government. I appreciate fully the difficulty of realizing that such a distinction can exist in view of the apparent identification of the Army with the Grau San Martín government. It might be remarked, however, that the Army mutiny did not take place in order to place Grau San Martín in power. It occurred for the sole purpose of displacing the officers and when Batista and the other ringleaders found at the last moment that the students and a few others would join with them they then agreed to support a so-called revolutionary government in which Grau San Martín participated. The divergence between the Army and the civilian elements in the government is fast becoming daily more marked. As Batista becomes more influential the power of the students and Grau San Martín diminishes.

There will be held tomorrow night a general assembly of the university students at which I am informed a large majority of the students will pass a resolution repudiating the actions of the Student Council and urging the constitution of a government in which all factions can have confidence. Once this action is taken the Grau San Martín regime will in strict reality only represent some 30 members of the Student Council, a few professors, and the officeholders whom they have appointed.

If our Government recognized the existing Cuban government before it has undergone radical modification such action would imply our lending official support to a regime which is opposed by all business and financial interests in Cuba; by all the powerful political groups and in general, so far as I can estimate the situation after 5 months' intensive study, not only by all the elements that hold out any promise of being able to govern Cuba but by a very great majority of the people as well. Such action on our part would undoubtedly help to keep the present government in power for a while but popular reaction against it, while delayed, would continue and would increase, until after a series of exhausting efforts which the Republic cannot

effect, the government would either be overthrown or else, which is more probable, the country would be plunged into utter anarchy.

Under existing conditions no government can survive whether we recognize it or not unless the major political groups support it and unless the commercial and business classes have confidence in it.

If we extend recognition now we do not promote permanent stability for the reasons above expressed and we incur the antipathy of those classes in Cuba which in reality constitute the dominant portion of public opinion and which, once these abnormal conditions have passed, will govern the country.

If we refrain from taking action now a solution is probable. The students confidentially are stating to their friends that they can no longer hold out. Batista is today already pressing for a compromise. The [memorandum?] left today at the Department announcing a proposed change in the Cabinet is indicative of the change in the uncompromising attitude on that point formerly maintained by the students. I consequently most earnestly recommend that in the true sense of the term we give the Cuban people a further opportunity to settle their own problems without hindering that end through premature action on our part. If a change in the Executive branch of the government in whole or in part can now be brought about which will result in popular support and restore confidence I would most decidedly recommend immediate recognition without waiting until those customary objectives such as the complete maintenance of public order are attained. But I wish to emphasize my strong belief that if we recognize a government now which does not possess at least a considerable measure of popular support we postpone a return by Cuba to normal and stable conditions and we incur once more the same measure of animosity on the part of the mass of the Cuban people as that which we possessed during the last 4 years of the Machado Government.

WELLES

837.01/29

Memorandum by the Assistant Secretary of State (Caffery)

[Extract]

[WASHINGTON,] October 6, 1933.

The Brazilian Ambassador, Mr. R. de Lima e Silva, came to see me this morning to ask me if there had been any change in our attitude toward recognition of the Grau San Martín Government. I told Mr. Lima e Silva that there had not yet been any change in our attitude. He asked me to let him know if we decided to recognize, because his Government desired to act in accord with us in the matter.

J[EFFERSON] C[AFFERY]

837.01/24 : Telegram

The Chargé in Panama (Burdett) to the Secretary of State

PANAMA, October 6, 1933—11 a. m.

[Received 1:10 p. m.]

137. With reference to press reports Panaman recognition of present government Cuba, acting President Diaz informs me that report is substantially correct and that Panama has chosen to follow the principle of a continuous recognition by instructing its diplomatic representative in Habana to establish conversations with the government there.

Acting President thought President Arias might call on Grau San Martín at Habana.

BURDETT

837.00/4140 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 6, 1933—4 p. m.

[Received 5:30 p. m.]

343. I am advised this morning that at a full meeting of the Student Directorate yesterday the majority of the students determined that they would be inevitably forced to get rid of Batista. They were moved to this decision by the strong popular reaction in his favor due to his determined stand against Communist agitation and to the increasing prestige which this popular reaction had given him as well as by their desire to shift all responsibility for the death of the officers on last Monday to the Army. The bitterness of feeling engendered by the National Hotel incident is becoming increasingly strong and many of the students in the Directorate fear the public antagonism to them which this is creating.

In the meeting a possibility of an armed attack on Batista was seriously discussed as was likewise the attempt to obtain the support of the A.B.C. and other revolutionary organizations in the endeavor to overthrow Batista.

Three of the members of the Directorate on several occasions during the past 24 hours have stated to my informants that the Army and Batista were now in control and that it was their patriotic duty to find at once means of doing away with the latter in order to avoid the creation of a military dictatorship.

WELLES

837.00/4141 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 6, 1933—6 p. m.

[Received 8 p. m.]

344. At a meeting of the Diplomatic Corps held this afternoon to discuss the measures taken by the Dean in behalf of the Corps to insure the safety of the captive officers, the Chilean Minister and the Argentine and Brazilian Chargés d'Affaires stated to me that their Governments would not consider recognition of the present Cuban government until it had been so reorganized as to obtain the support of at least a considerable portion of public opinion. They further stated that unless such support was obtained they saw no hope for the maintenance of even a semblance of public order.

The British Minister expressed very considerable alarm at the conditions of disorder existing in Habana.

Up to the present time, although the government daily announces impending recognition by the United States and by Latin American Republics, only Mexico and Uruguay are maintaining official relations with the government. I can find no evidence of the belief on the part of any other diplomatic representative here that there is any justification for recognition at this time.

WELLES

837.00/4142 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 6, 1933—midnight.

[Received October 7—2 a. m.]

345. It seems evident that the fear which the increasing power of Batista has caused the Student Council is creating a very salutatory desire for an immediate understanding with the opposition political groups and parties. Last night Batista held a meeting with the principal leaders of the Army and determined that the students should be immediately informed that they must withdraw from all contact with the government and refrain from any interference with the installation of a concentration government. This afternoon the Student Council passed a resolution appointing a committee of three professors of the university to act as mediators between the opposition sectors and the government in order to reach a solution as to a new government. The leaders of the opposition, from what they have stated to me today, will meet these advances halfway.

I had this afternoon an interview with Sergio Carbo. He stated his ignorance of any intention on the part of Grau San Martín to appoint a concentration Cabinet and expressed the opinion that such a step would be worse than futile unless it had the previous approval of the opposition. He is firmly convinced that the government as now constituted must fall, and since he is the strongest member of the present regime, his insistence upon the need for a compromise acceptable to all factions is significant.

Grau is speaking to the press of appointing new Secretaries of the Interior and of Agriculture but since both candidates he mentions are individuals who have supported him from the outset of his government and are completely unacceptable to any opposition faction, such changes could hardly be considered as bringing about a "concentration Cabinet".

I am of the opinion that a change for the better in the attitude of all parties towards a fair compromise is rapidly impending.

WELLES

837.00/4146 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 7, 1933—midnight.

[Received October 8—3:23 a. m.]

347. I had a conference with Batista this afternoon. He advised me that he realized now fully that the present regime was a complete failure and that a concentration government in which the political groups and the commercial interests of the country could have confidence was an absolute necessity. He also stated that he appreciated the fact that recognition by the United States was essential before any improvement in conditions here could be expected.

He has already arranged for interviews with Mendieta and Gómez tomorrow and Monday and assured me that he would not cease his pressure until a new government supported by public opinion was installed through peaceful methods.

He was deeply impressed by the fact that delegates of all of the important business and financial groups in Cuba had visited him this afternoon before I saw him to insist upon the creation of a government in which the public could have confidence. *They brooded here*

The students today selected as their representatives in the negotiations for the solution of the political problems the following university professors: Doctors Dolzvieta and Carrera Justiz. All of these are disposed to work for a complete change in the present administration.

Batista told me that he had already advised the Student Directorate that the Army would not permit any interference by the students

in government here and that they must return to the university which reopens ~~next week~~ and remain there.

He also assured me of his intention to proceed immediately with a firm hand in all of the American sugar plantations where labor troubles still existed, by arresting and removing all Communist leaders and by using the troops to restore order wherever it was necessary.

WELLES

837.00/4147: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 9, 1933—1 a. m.

[Received 3:53 a. m.]

348. I have today had a long conference with Mendieta. He is now authorized to speak in the name of all the important opposition groups in his interview tomorrow morning with Batista. There is a very strong current of belief that the latter will urge the appointment of a concentration government headed by Mendieta himself.

The Student Council had a violent altercation with Batista last night. The open break which resulted has been temporarily repaired at the urgent insistence of a delegation of the students who called upon Batista this morning.

There is a growing feeling of optimism among those who are close to the city authorities and the government that a representative government will replace the present regime in the very near future.

WELLES

837.00/4152: Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 9, 1933—2 a. m.

[Received 4:07 a. m.]

349. For Caffery. Negotiations today have been materially handicapped by the return of Finlay who has alleged to Grau San Martín that you stated to him that the inclusion in the Cabinet of three individuals of the opposition parties would bring immediate recognition of the United States. Grau is consequently thinking of appointing individuals who have in the past been connected with the opposition groups but who have been identified with the student movement since the overthrow of Céspedes and who have no support whatever from the parties to which they used to belong.

I have, of course, denied any such commitment by the Department. It would be helpful, however, at once if you would cable me that your discussion with Finlay was predicated on the support of parties

or groups for a concentration government and in no sense upon the appointment to office of individuals who were not representative of the parties to which they formerly belonged.

WELLES

837.00/4152 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, October 9, 1933—noon.

115. From Caffery. Your telegram No. 349, October 9, 2 a. m. I have not seen Finlay since September 28th, when I made statement set out in my telegram No. 112.⁶³ I did not say that "the inclusion in the Cabinet of three individuals of the opposition parties would bring immediate recognition" by the United States.

HULL

837.00/4156 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 10, 1933—1 a. m.

[Received 5:12 a. m.]

350. The negotiations for a concentration government are momentarily seriously complicated by the reports Finlay has given of his alleged conversation in the Department of State and by the hope on the part of the students that the propaganda in which they are now engaged in the United States will meet with favorable response.

All of the powerful party leaders, namely, those of the Unión Nacional, A. B. C., O. C. R. R., Gómez and Menocal have agreed unanimously to support Mendieta as their spokesman and to urge him to accept the Provisional Presidency. It is their belief that should he be willing to make this sacrifice, since it is recognized by all elements that in national elections he would be elected to the constitutional Presidency by a sweeping majority, he would have the confidence of all elements in the political and business world and that his great popularity in the interior would be of immediate avail in checking unrest in the agricultural districts. He furthermore possesses the entire confidence of Batista and is not personally opposed by the students. Negotiations in this sense proceeded yesterday very rapidly and apparently successfully until the Finlay reports began to be given credence by the Student Directorate in its session last night. As a result the conference adjourned this morning without any further action.

⁶³ September 28, 8 p. m., p. 460.

In his desire to appoint three individuals of previous connections with the parties of the existing opposition Grau San Martín has encountered an obstacle in the unwillingness of Batista to agree to the changes indicated. The latter has sent me word tonight that he has felt it necessary to postpone his conference with Mendieta for a 48-hour period since some of the students have been busy circulating reports today that if a new government was formed it would at once request the United States to land Marines to disarm the Cuban Army. In the excited condition of the soldiers this rumor, together with reports resulting from Finlay's conversations with the students as to the imminence of recognition by the United States, has necessarily had a prejudicial effect and Batista quite rightly fears that conferences between himself and Mendieta would be misconstrued by a portion of the soldiers.

As a result of the failure of the Directorate to take action the three professors they had selected to act as their delegates have refused to serve.

In estimating the manner in which public opinion is lined up at the moment, the following is an accurate summary: All of the political parties, all of the commercial and financial groups, a majority of the university professors, a probable majority of the university students outside of the Directorate are insistent upon the need for the creation of a concentration government. Batista with the presumed support of the Army is pressing for a change satisfactory to all in the existing government. Grau San Martín is determined to retain the Presidency and the Student Directorate is divided.

The feeling as to the likelihood of a favorable solution is generally optimistic. I am doubtful, however, after the complications which occurred today, that any change will be decided upon in the immediate future.

WELLES

837.00/4166 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 10, 1933—4 p. m.

[Received 7:35 p. m.]

351. My 350, September [October] 10, 1 a. m. The propaganda circulated among the soldiers yesterday by the students to the effect that the Cuban Army would be disarmed if a concentration government was formed caused Batista not only to postpone his interview with Mendieta until tomorrow but likewise to issue a statement declaring no change in Government was impending and that there was no divergence between the Army and the present regime. Furthermore,

a general assembly of the delegates of the university students which met last night, in view of the reports from Dr. Finlay that recognition by the United States was impending within 48 hours, determined to postpone any action urging the creation of a concentration government and adjourned until tomorrow night when the proposed resolution will again be presented for adoption.

Batista last night definitely refused to agree to the changes in the Cabinet which Grau San Martín desired to make. Batista's objection was based on the very logical ground that changes were futile unless they implied the support of the political parties and unless they would strengthen the Government in public opinion. He was further induced to take this stand because of his personal lack of confidence in the appointee selected as Secretary of Gobernación who is technically his superior.

The proposal has now been revived of the creation of a super-governmental advisory committee composed in equal parts of the opposition and of the present government, such committee to have practical control of the Executive power. Discussions are in progress this afternoon between delegates of the opposition and of the Student Directorate with a view to ascertaining whether the present government will offer to accept this proposal.

There is a constantly growing universal realization of the need for an immediate change in the present intolerable situation in government. The obstacles to the realization of this end are the reluctance of the students to accept the blame for the situation into which the country has been plunged and the hesitancy on the part of Batista to press the formation of a new government until he is sure that his troops will support such a move. There are of course likewise the inevitable rivalry between the leaders of different factions and the lack of courage on the part of the overwhelming majority of the university professors and a decided majority of the university students in expressing their convictions by condemning the activities of the Student Directorate.

The American Consul at Santiago in a telegram this morning reporting upon conditions in that city states that there exists "universal dissatisfaction and expectancy and no harmony of opinion." That diagnosis is equally applicable to the present situation in Habana and, from every account I have received, to that in all other parts of the Republic.

WELLES

837.00/3830 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, October 10, 1933—7 p. m.

117. At the press conference this morning the Under Secretary reiterated the third, fourth and fifth sentences of the statement communicated to you by telegram 96, September 11.⁶⁴

HULL

837.00/4175 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 11, 1933—noon.

[Received 2:40 p. m.]

352. For Caffery. The statement made yesterday by the Department has created an extremely beneficial effect here. While the leading newspapers of Habana are not being published the reporters and other employees of these papers are getting out temporary editions and these have carried the news in very effective form. The statement so made has counteracted the daily propaganda coming from the political parties and from the Student Directorate that Grau San Martín regime is on the verge of being recognized by the United States.

Dr. Guillermo Portela, who has been acting as intermediary between the students and the leaders of the political parties and to whom I denied the truth of the Finlay reports, yesterday telephoned Marquez Sterling and was told by the latter that in his last conversation with you, you had given him to understand that the inclusion by Grau San Martín of "three national figures" in the Cabinet would be regarded by us as a concentration government which would receive recognition by the United States.

I reiterated to Portela that any such statement on the part of Marquez Sterling was not based on fact and after your telegram No. 117, October 10, 7 p. m., was received I emphasized to Portela, for the benefit of the students, that the policy of the United States Government remained exactly the same. I suggest you call Marquez Sterling to the Department and reiterate for his benefit the statements yesterday made at the press conference as to our policy on recognition and request him to inform his Government accordingly. He has unquestionably made Grau San Martín believe that any change in the Cabinet would be regarded by us as resulting in an acceptable concentration government.

I shall appreciate it if you will cable me summaries of such conversations as you may have with Marquez Sterling so that I may be prepared accordingly.

WELLES

⁶⁴ *Ante*, p. 424.

837.00/4175 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, October 11, 1933—7 p. m.

118. From Caffery. I am glad you liked the statement we gave out yesterday morning at the press conference.

This morning Márquez Sterling came in to see me and I told him that I was annoyed by what Finlay had said at Habana about his conversation with me and I said (what I had repeatedly said before to him) that our position on recognition was that set out in the press conference yesterday morning. Márquez Sterling has upon several occasions said something about plans of Grau San Martín for changes in his government. A few days ago he said something about the possible inclusion of "three national figures" in the Cabinet but I, of course, gave him no assurances thereon. I shall show this telegram to Márquez Sterling.

HULL

837.01/30 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 11, 1933—7 p. m.

[Received 9 p. m.]

354. The Spanish Ambassador has just informed me that the new Spanish Cabinet has instructed him to recognize the Grau San Martín government tomorrow "the day of the Spanish race". The Ambassador is deeply chagrined at this instruction and has protested against it although without hope that it will be modified. The entire Spanish colony is opposed to the present regime because of the decrees it has issued in prejudice of the Spanish regional and benevolent associations and because of the bad business conditions for which the powerful Spanish commercial groups hold the government responsible.

The Ambassador can only suppose that recognition is being extended by the new Spanish Cabinet for sentimental reasons in view of tomorrow's holiday and because the new Secretary of State is unfamiliar with the reports the Ambassador has sent on conditions here.

WELLES

837.01/32 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 13, 1933—3 p. m.

[Received 3:20 p. m.]

91. Minister for Foreign Affairs would value any information as to our progress toward recognition of Cuban government. Says he

is anxious to follow our lead in this matter of primary interest to us but is now at a disadvantage in standing off pressure for recognition through lack of up-to-date information. Suggest Department keep me advised of developments from time to time.

GIBSON

837.00/4193 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 13, 1933—8 p. m.

[Received 10:15 p. m.]

359. The Secretary of Gobernación announced officially this morning that an arrangement had been made with the Government of Mexico for the services of a military mission composed of Mexican officers to be used in the training of officers in the present Cuban Army.

I learned last night that this suggestion had been made to Batista by the Mexican Chargé d'Affaires 3 days previously. In view of the existing situation here and particularly in view of the fact that since the independence of the Republic of Cuba the training of Cuban officers has been undertaken solely in the United States or under the direction of American officers this step can only be construed as a deliberate effort by the present government to show its intention of minimizing any form of American influence in Cuba.

Carlos Saladrigas, the Secretary of State in the Céspedes Cabinet, upon whose conversations with the Mexican Chargé I have reported, advised me today that Spindola has within the past 10 days obtained further interviews with the directors of the ABC in order to urge them to unite with the elements supporting the present government as a means of lessening American influence in Cuba, in which effort, Spindola alleged he was acting by full instruction of his Government. This plea has been repeatedly and most emphatically turned down by that party. He has again offered the present government the sending from Mexico of delegates of the National Revolutionary Party to assist in the creation of the revolutionary party in Cuba which Carbo is sponsoring.

WELLES

837.00/4191 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 13, 1933—midnight.

[Received October 14—3:50 a. m.]

360. The Brazilian Chargé d'Affaires this evening advised me that in response to an inquiry from his Government as to the stability of the present Cuban government replied that "it was built on sand" since

in his opinion its sole support was an "undisciplined and mutinous Army and a band of students."

I should appreciate having any opinions which may be expressed to you by the Argentine, Brazilian or Chilean Ambassadors in Washington regarding political conditions in Cuba. As I have reported, the representatives of those countries in Habana have frequently expressed the belief that the policy we have so far carried out in Cuba met with the complete support and approval of their own Governments.

WELLES

837.00/4194 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 14, 1933—1 a. m.

[Received 4:35 a. m.]

361. I had a conference with Finlay tonight. He stated that the reports attributed to him had all emanated from Marquez Sterling and that the sudden change in attitude on the part of the Student Directorate was due solely to them.

He requested my opinion as to the desirability of further efforts for conciliation expressing the belief that an immediate common accord between all the political parties was urgently necessary in view of the danger presented by the attitude now adopted by the Army. He added that this belief was shared by the students. I assured him that I felt such a move was of the utmost interest to the Republic and that I had been repeatedly assured by the leaders of all parties of their readiness to agree to any reasonable compromise.

After long discussion he said that he would request full powers from the government for a delegation composed of himself, Dr. Irizarri and Dr. Portela to negotiate with the political leaders. He requested my assistance which I said I would gladly give provided my participation in the negotiations was maintained completely confidential since the utter lack of discretion displayed in previous conferences had been the primary cause of their failure.

WELLES

837.00/4196 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 14, 1933—5 p. m.

[Received 8:10 p. m.]

364. For Caffery. I have just received, through his wife, a message from Dr. Ferrer, Secretary of War in the Céspedes Cabinet, who is now

confined as a prisoner in Cabana prison, that the authorities are circulating among all of the officers in prison a letter which has been drafted by Octavio Seigle, a paid propagandist for the Grau San Martín regime, and which the officers are requested to sign declaring that the assembling of the officers in the National Hotel and their conduct subsequent thereto was due to my instigation. Dr. Ferrer has sent me word that most of the officers have disregarded the communication but it is to be presumed that some of them, in order to get in the good graces of the present authorities, will probably sign the letter. This is merely one of a long series of allegations regarding me published by the adherents of the present government and concocted in each instance without even a shred of fact upon which to base them. They have included charges that I was conspiring with various revolutionary leaders; that I had engaged in an attempt to foment a revolution in Piñar del Río Province and as recently as this morning that I was being bribed by the American Sugar Refining Company and by the National City Bank.

The present effort, however, is more plausible in that by obtaining the signatures of a few officers to such a declaration the charge will probably meet with a certain amount of belief both in Cuba and in the United States. I consequently suggest that you discuss the matter with the Secretary and if he concurs advise the press that the Department is aware of the effort which is being made to involve the Embassy in the action taken by the officers last month and that the Embassy's position in the matter has already been made clear by the Department.

conspire ✓ The charge is as ludicrous as it is unfounded. It is only possible for me to reiterate that I never had any connection with any of the officers at any time and that with the exception of Colonel Sanguily whom I have not seen since August 13th, the day after that upon which the Céspedes Government came into power, I do not even know personally any of the officers who were in the National Hotel. The only other officer whom I knew, who was in the National Hotel, was Dr. Ferrer himself and my acquaintance with him was due to his service as Secretary of War. Once he took refuge in the National Hotel I never communicated with him in any manner and the Department is fully informed in every detail of my conversations with him prior to that time.

I do not believe there is any way in which this extremely vicious attack can be prevented from gaining credence except through a statement by the Department in the sense indicated.

WELLES

837.00/4196 : Telegram

The Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, October 15, 1933—5 p. m.

120. From Caffery. Your 364, October 14, 5 p. m. The following statement has been released to the press this afternoon :

"The Department has been informed that an effort is being made to involve the Embassy at Habana in the action taken by the Cuban Army officers last month in taking refuge in the National Hotel, and in subsequent events.

With regard to this matter the Department can state unequivocally that far from instigating the assembling of the officers in the National Hotel, Ambassador Welles had no knowledge of their intention until the event took place. Moreover Mr. Welles was equally unaware of any of their subsequent plans, having never spoken to any of them either individually or collectively or having attempted to communicate with them since they took refuge in the National Hotel."

See the letter
of Mr. HULL

837.00/4206 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 16, 1933—8 p. m.
[Received October 17—4:18 a. m.]

367. It seems an appropriate moment, in view of the apparent impasse that has been reached between the supporters of the Grau San Martín government and the elements opposed to it in the negotiation of an agreement which would provide for a government which might meet with general popular support, to lay before you the following considerations in view of my belief that we must now decide upon a definite course in accordance with a permanent policy towards Cuba which will further the ultimate interests of the United States both political and commercial not only in Cuba but on the continent as well.

The situation now existing and the events leading up to it are in brief summary as follows:

The Céspedes Government was supported by every one of the so-called revolutionary parties or associations opposed to Machado with the exception of the students. It was accepted by the bulk of the old Liberal, Conservative and Popular Parties, who realized the fall of Machado made a reorganization of those parties possible and felt that the rank and file of the parties would receive both political and individual guarantees. It was strongly supported by all commercial and financial interests as is demonstrated by the fact that an unprecedented revival of business took place commencing 10 days before

the downfall of the government. While mob lynching of spies and criminals employed by Machado and the imprisonment of his chief henchmen occurred during that period the government was taking measures to restore authority and there was neither intimidation, assassination nor censorship of speech or press by the government itself.

The downfall of the Céspedes Government was due I believe to an Army mutiny. The mutiny was caused partly by the desire of the sergeants and soldiers to remove most of their officers; partly by their well-founded belief that some of the officers were plotting for the restoration of General Menocal to power; and principally because of the propaganda spread by Communist and radical agitators among the soldiers that their pay was to be cut from \$22 to \$13 a month. The mutiny was not directed against Céspedes or his Cabinet; it was not political in its origin and it was not, as appears to be believed in the United States, in any sense responsive to a social movement.

The students did not even know of the movement until 24 hours before it took place. Batista himself has confirmed my knowledge that they and the radical professors were not called in until the sergeants felt they dared not carry out their protest mutiny without civilian support. It was only at the last moment that these civilian elements joined by other extreme radicals succeeded in persuading the soldiers to turn the mutiny into a political revolution to place a new government in power.

During the past 6 weeks that the present government has been in control the following developments have taken place: The government is supported by a small number of professors and a portion, probably a minority, of the university students; by a scattered number of small offshoots from the large secret societies most of which offshoots are concentrated in Habana; by a few radicals of all shades belonging to the "lunatic fringe" of the older parties; and by the Army. It has sedulously cultivated the labor unions and has probably gained the sympathy of some of them but since there is not as yet in Cuba effective national organization of labor outside of Communism such support as there may be by the unions is regional.

The government is opposed by all of the five organized revolutionary parties who were opposed to Machado; by the three old political parties whose strength in the provinces is still very strong; small merchants and business men; by the small farmer and colono class which is altogether conservative in tendency and which constitutes the bulk of the population in the provinces; and finally by all the larger Cuban and foreign commercial and financial interests.

During these 6 weeks no constructive measure has been undertaken; many decrees have been issued and most of them have been

disregarded; every branch of the public administration has been utterly disorganized; employees who have spent their life in the public service and who had no political color have been replaced by boys of 20 or 21 who have neither training nor qualifications. The Customs, Public Instruction, Post Office and Sanitary services are in a state of utter chaos; almost every judge in the Republic has been replaced by a so-called revolutionary.

The condition of the treasury is desperate; salaries can be paid for one more month; customs receipts are constantly shrinking and since taxpayers are refusing to pay taxes internal revenues are practically non-existent.

There is neither protection for life nor property. The houses of all political leaders opposed to the government are searched by squads of soldiers at any time; imprisonments occur without any semblance of legal authority; properties belonging to Cubans, foreigners and Americans have been seized by laborers, the owners' representatives have fled or have been driven off and the government has been unable or unwilling to restore the properties to their rightful owners; assassinations are recommencing and as in the days of Machado the President and his chief supporters only go about in armored cars surrounded by soldiers with machine guns. Those who dare to attack the government on the radio or in the press are in danger of seizure by soldiers or students if they do not go into hiding. The flight of political exiles to the United States has already commenced and two of the principal leaders of the revolutionary parties have now fled in justified fear of their lives.

As cynically admitted by one of the leading members of the Student Directorate the government has sought to gain popular support by raising the cry of anti-Americanism but in reality the groups now supporting the government are the only elements in Cuba which are actually anti-American. It is only in the university and among the professional agitators that there exists any real anti-Americanism in Cuba so far.

In determining our course in view of these facts and bearing in mind the ultimate objectives which you have laid down it seems to me that we have the following alternatives:

(1) To recognize the present government without further delay.

The advantages of this step are as follows: We would presumably allay anti-American propaganda; we would avoid the present difficulties arising from having to deal with an unrecognized government; we might through influence prevent dangerous economic and financial measures being taken; recognition might offer us the opportunity of bettering the disastrous economic conditions in Cuba which affect every class and which are gravely prejudicial to our own export trade;

not a
Globe
any more

finally recognition would help temporarily to strengthen and to maintain the present government.

The disadvantages are as follows: We would recognize a government supported by a scant minority and only capable of maintaining itself through the present adherence of a disorganized and undisciplined Army; we would incur exactly the same reproach which the Hoover administration incurred for not withdrawing recognition from Machado, namely, that through recognition and the moral and financial support which that implies we are forcing upon the Cuban people a dictatorship against the will of the great majority of the people; we would incur the lasting hostility of the organized political parties who will not go to national elections held under this regime as well as of the professional and commercial classes who foresee ruin under this government; we would apparently favor the small anti-American as against the large pro-American groups; we would not promote permanent stability for the reason that with the political parties refusing to go to elections and all the financial and commercial interests clamoring for a government in which they can have confidence, there is no possible doubt that one revolutionary attempt after another will be made until the government is overthrown and in the meantime there will be no sugar crop and no permanent economic improvement; finally for all of these reasons we would postpone the time when national elections can be held and a permanent constitutional government be elected with which we can undertake the ratification of new treaty relations, and which would itself be fitted to undertake those permanent social and economic reforms which alone can bring about real stability in Cuba.

(2) The second alternative is to withhold recognition until a provisional government is constituted which offers guarantees acceptable both to the political and non-political forces in the Republic.

The arguments above set forth are of course applicable to this alternative in reverse order. From the point of view of immediate expediency the first alternative is preferable. From the point of view of permanent policy in Cuba the second alternative seems to me the one we must adopt. It is a policy based on justice to the Cuban people, one which will hasten rather than retard the creation of a constitutional government in Cuba and one which will expedite eventual stability. Our own commercial and export interests in Cuba cannot be revived under this government. Only confidence can accomplish that and there is no confidence either in the policies nor stability of this regime, whether it be recognized or not.

I have felt it essential to lay these facts before you for the determination by the President and yourself of the policy we should pursue. While my knowledge of sentiment in Latin America is largely

based upon my conversations with the Latin American representatives here, it would seem as if we were supported generally in the continent in the attitude we have so far assumed.

WELLES

837.01/34 : Telegram

The Ambassador in Brazil (Gibson) to the Secretary of State

RIO DE JANEIRO, October 17, 1933—9 a. m.

[Received 11:40 a. m.]

93. Minister for Foreign Affairs tells me Argentine Ambassador yesterday urged that the time had come for the South American states to agree as to recognition of government in Cuba. He was told reports just received from Brazilian Legation were distinctly discouraging and that Brazilian Government would await more favorable developments.

GIBSON

837.00/4213 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 18, 1933—1 p. m.

[Received 2:14 a. m. (p. m.?)]

370. Negotiations between Mendieta and Batista will be resumed tomorrow. In a conference I had with the former this evening he expressed his willingness to make any personal sacrifice which might be necessary to bring about the formation of a national government.

Owing to the growing dissension between the students and Batista the latter intimated his desire today for immediate change in the present situation and expressed the belief that conditions in the Army now warranted his proceeding with conversations with Colonel Mendieta.

WELLES

837.00/4227 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 18, 1933—1 p. m.

[Received 3:05 p. m.]

372. Developments of the past 12 hours are disquieting. It appears that the issue between the students and Batista will be joined in the case of the Chief of Police of Habana. Batista some 2 weeks ago appointed to that office Captain Franco who is understood to be loyal to him and who has improved materially the discipline and authority

of the police force. The students 2 days ago decided to remove Captain Franco and have appointed in his place a member of the secret society affiliated with the students known as "Ley y Justicia". The name of the individual selected is Labourdette, some 27 years of age. The society to which he belongs committed most of the acts of terrorism and assassinations sponsored by the students during the last years of the Machado Government. He and his associates are the equivalent in Cuba of the American gangster.

The announcement of the desire of Dr. Grau to appoint Labourdette to this position created general consternation in Habana and open opposition both from Franco and Batista. Last night the Student Council met to determine its attitude and voted by a majority of one to insist upon Labourdette's appointment being made effective. Batista until the present moment has refused to permit such action. If he is overruled he will necessarily lose prestige and influence as well as control of the Habana police force amounting to approximately 2,000 men.

Batista's position seems to have weakened materially during the past few days. He has been forced by the sergeants most closely associated with him to remove the three commissioned officers who joined him after the mutiny and upon whose advice he had largely depended. It is probable that the weakening of his position is the principal motive for his desire, as I informed the Department in my No. 370, October 18, 1 p. m., to resume negotiations with Mendieta immediately.

WELLES

837.00/4236 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 19, 1933—10 p. m.

[Received October 20—12:22 a. m.]

378. At last there appears to be definite evidence that Grau San Martín and the civilian elements associated with him are willing to take the initiative in seeking a compromise solution. This afternoon I talked with Fernando Ortiz who is now close to Grau San Martín and with leaders of the A. B. C. A form of solution of the following nature has been accepted by Grau and has been accepted in principle by the A. B. C. directors: The retention of Grau as President; complete change of Cabinet in such manner as to obtain the support of three and probably all of the political parties; the creation of an administrative commission which would have the deciding voice in all matters affecting electoral and financial decrees and which would be composed in equal parts of governmental and opposition appointees; and the proclamation of a provisional constitution which would define the duties and the duration of the provisional government.

Batista will support this formula. Mendieta and Gómez are, I believe, favorably inclined although they will attempt to insist on Grau's withdrawal. The O. C. R. R. will abide by Mendieta's decision.

This formula is in my judgment a reasonable compromise and should offer a basis for agreement. In a conference held today with authorized representatives of the commercial and financial interests I was informed that they would support it although they object to the retention of Grau.

The desire for a mapped-out accord is due to the open disagreement now existing between Batista and the students. The determined refusal of the former to agree to the removal of the Chief of Police of Habana and the inability of the students to force the issue have caused a marked diminution in their influence in the Palace.

They are already conspiring to overthrow Batista or to assassinate him. The fear on the part of Grau and many members of the Cabinet of the results of an open struggle between the students and the soldiers will hasten a solution.

I have urged the immediate consideration of the compromise proposed throughout today on all elements. Unless the students are again successful in blocking its acceptance I am inclined to be hopeful that the end of this impasse may be in sight.

WELLES

837.00/4245 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 20, 1933—4 p. m.

[Received 8:45 p. m.]

382. Grau San Martín has just sent me, through Doctors Portela and Granados, the written draft of the compromise solution referred to in my telegram of October 19, 10 p. m. It appears to me an entirely satisfactory solution provided two basic points are made clear. These points involve fair representation of all important sectors on the Administrative Council or "Council of State", as it is termed in the draft referred to.

I am advised that Grau San Martín himself and the Student Directorate have formally approved the draft and that, after receiving confidential advice from me as to whether I consider it a fair proposal, Grau San Martín himself will request the agreement of the individual leaders of the opposition parties.

In this project, copy of which will be sent by air mail, the powers of the President are limited and principal executive and legislative authority is vested in the chief of the Cabinet and in the Council of State.

Portela likewise stated that Grau had informed him that should the new government be organized he himself would resign as President.

WELLES

837.00/4255

The Ambassador in Cuba (Welles) to the Secretary of State

No. 182

HABANA, October 21, 1933.

[Received October 23.]

SIR: Referring to my telegram No. 382 of October 20, 4 p. m., I have the honor to transmit herewith a copy, in English translation, of the draft of a compromise solution which was handed to me yesterday by Doctor Felix Granados by instruction of Doctor Grau San Martín.

Respectfully yours,

SUMNER WELLES

[Enclosure—Translation]

ORGANIC STATUTE

The President.

I. The President of the Republic shall have as exclusive functions:

- (a) Representation of the State abroad;
- (b) The reception of diplomatic representatives;
- (c) The appointment of the Chief of the Government and the acceptance of his resignation;
- (d) The rendering of reports and making of recommendations, orally or in writing, to the Council of Ministers, whenever he may deem it convenient;
- (e) The calling of meetings of the Council of Ministers in the Palace whenever he may desire to attend its deliberations:

II. And, on the proposal of the Chief of the Government, the President of the Republic:

- (a) Shall approve and ratify international treaties;
- (b) Shall accredit diplomatic representatives and issue exequatur to foreign representatives;
- (c) Shall decree the suspension of guarantees and the state of siege;
- (d) Shall appoint and dismiss the ministers;
- (e) Shall appoint the Chiefs of the Navy and of the Army;
- (f) Shall appoint the professors of secondary and superior instruction, judges, *de facto* governors and mayors and all functionaries and chiefs of administration of the first and second class;
- (g) Shall apply the clemency of pardon;
- (h) Shall sanction the decree laws and the general dispositions of the Government.

No presidential act of those enumerated in this article shall be valid without the counter-signature of the Chief of the Government; and, by virtue of this counter-signature, the President shall not be politically responsible.

The Government.

III. The Council of Ministers shall be presided over by the Chief of the Government.

IV. The Chief of the Government shall form the cabinet, proposing the appointment of the ministers to the President of the Republic. He may also request their resignation at any time.

V. The decisions of the Council of Ministers shall require a majority of the votes of its members in addition to the vote of the Chief of the Government.

VI. All acts of the Government and of the Administration shall appertain to the Council of Ministers. Each minister shall have the powers and authorities which the Council may attribute to him. The President of the Council and the Ministers are politically responsible to the Council of State.

VII. The Council of State may refuse its confidence to the Chief of the Government or to any of the ministers. In the first case the entire cabinet shall present its resignation; in the second case only the minister who has been rebuffed.

VIII. The Government shall consult the Council of State concerning every project of legislative reform. The Council of State shall have 10 days within which to approve or reject such projects. If this period elapses without agreement being reached, it shall be understood that the project has been rejected.

IX. When a project has been rejected by the Council of State, the Government shall have the option of:

- (a) Modifying the project in accordance with the objections of the Council;
- (b) Submitting to the Council the question of confidence;
- (c) Definitely dismissing the project. If the project should be rejected without objection, the Government may only either dismiss the project or submit the question of confidence.

The Council of State.

X. The Council of State shall be composed of 30 members appointed by the Government, subject to the approval of all of the revolutionary sectors. Vacancies occurring in the future shall be filled by appointment of the Council itself.

XI. The Council of State has authority:

- (a) To approve the legislative projects presented by the Government;

- (b) To pass votes of censure on the Chief of the Government or on any of the ministers.

XII. The decisions of the Council of State shall be by majority of votes.

XIII. The Councilors shall receive the same salaries as the ministers.

837.00/4254 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 21, 1933—5 p. m.

[Received 8:43 p. m.]

386. My 382, October 20, 4 p. m. In conversations yesterday afternoon and evening I ascertained that the leaders of the Unión Nacionalista and of the A.B.C. are disposed to accept the form of compromise solution, full copy of which was transmitted with my despatch No. 182, October 21.

A meeting will be held tonight at the Palace at which an authorized delegate of the business and financial interests of Cuba will express to the students and to Grau San Martín the support of these interests for this form of solution and insist upon its being made effective.

The request was made of me by Dr. Portela at the instance of Dr. Grau San Martín to keep the matter strictly confidential in view of his fear that if the students knew that the proposed solution had been discussed with the Embassy they would refuse to agree to it.

For the reasons above expressed I should prefer that this solution be not discussed with Marquez Sterling for the time being unless he brings it up of his own initiative.

WELLES

837.00/4260 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 23, 1933—4 p. m.

[Received 6:35 p. m.]

390. The Student Directorate yesterday passed a resolution with only three opposing votes declaring that Grau San Martín must determine within a period of 24 hours from the delivery this ultimatum whether he will undertake to govern the country as President or whether he will continue to be subservient to Batista. I am informed that the ultimatum will be delivered this afternoon.

The issue has been raised by the continued refusal of Batista to permit Grau San Martín to remove Guiteras, the Secretary of Gobernación, and by his refusal to permit the students to remove Captain

Franco, present Chief of Police of Habana. As already reported there are many further causes of disagreement between the students and Batista.

On Saturday the A.B.C. Radical, the largest of the secret organizations supporting the government, formally announced its withdrawal of such support and made overtures to the A.B.C. of which it originally formed a part for reincorporation in that party.

A significant indication of present conditions is the fact that the government on Saturday issued a regulation prohibiting all radio stations from permitting addresses to be broadcast in opposition to the government. In view of this regulation, at most of the theatres in Habana Saturday night and yesterday members of the A.B.C., surrounded by armed bodyguards, forced themselves upon the stages of the theatres and made addresses in which they attacked the government violently. In every instance the audiences received them with tremendous applause.

In view of the crisis with which he is now confronted within the government, Grau San Martín has made no progress in his negotiations with the opposition sectors.

WELLES

837.00/4264 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 23, 1933—11 p. m.

[Received October 24—1:54 a. m.]

391. Fernando Ortiz handed me this afternoon the drafts of a provisional constitution and of a program for the Provisional Government which he told me were approved this morning by Grau San Martín and by the Student Directorate. Both documents coincide in a general way with the draft agreement sent to me by Grau San Martín through Dr. Granados of which a copy was forwarded the Department. The parliamentary feature is, however, omitted. Ortiz told me that Grau would offer three Cabinet positions to the A.B.C. and full equality to all the opposition sectors in the legislative council if they would agree to the compromise proposed. He is to confer tonight again with Grau to reach a complete agreement on details. He asked me to use my personal influence with the political leaders to urge a rapid agreement and I replied that in my conversations with them as with the business representatives I had ascertained that they were fully disposed to concur in any solution which promised political and individual guarantees and public confidence. I stated that I was in full accord with him that a speedy agreement was necessary inasmuch as it was now obvious to all that the position of the

government was growing hourly weaker and that if the government did not take a rapid initiative the political leaders would prefer to await the anticipated collapse notwithstanding the dangers that involved.

Ortiz informed me he had been offered the Embassy in Washington or the Secretaryship of State; that he preferred the former but would not accept it unless a stable government were formed as a result of the present negotiations.

As a result of the ultimatum delivered him by the students Grau went out to Batista's headquarters at Camp Columbia this afternoon to attempt to come to an agreement. I am not yet advised of the outcome.

A general closing of all retail as well as wholesale business was determined by Habana business this afternoon to commence at midnight for 24 hours as a protest movement.

WELLES

837.00/4265 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 24, 1933—11 a. m.

[Received 12:35 p. m.]

392. As a result of the resolution passed by the directors of the A.B.C. Radical withdrawing their support from the government the group has broken up into two parts—one, a small fraction headed by Oscar de la Torre has remained with the government; the other, containing approximately 90% of the members, has organized as a political party and has come out in violent opposition. This latter group published this morning an inflammatory attack on Grau San Martín charging that his government was a worse dictatorship than that of Machado; claiming that he was plunging the country into anarchy; insisting that friendly relations with the United States were imperative for Cuba; and that a complete change of government was necessary immediately. This majority group had possession of most of the arms and ammunition distributed to the A.B.C. Radical by Batista in the early days after the mutiny. Although ordered by the government to turn back these arms to the Army some time ago they have retained possession of them and have now secretly conveyed them to the members of the A.B.C. itself. Fearing reprisals of this action four of the leading members of the opposition wing fled last night by air to Miami.

The speeches in the theaters attacking the government continued last night notwithstanding the efforts of the military to prevent them.

WELLES

837.00/4267 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 24, 1933—8 p. m.

[Received 10:12 p. m.]

395. I was informed this morning that Colonel Blas Hernandez, who will be remembered as the only revolutionist whom Machado was unable to capture, was sent for yesterday by Batista for a private interview. Batista stated to him that the situation had now reached the point where it could no longer be tolerated and that he believed the only possible solution of the problem was the removal of the present government and the placing of Mendieta in the Presidency. He requested Hernandez' support and upon receiving a favorable reply advised him that he would see him again tomorrow and that the step would have to be taken within the next few days. Batista has requested an interview with Colonel Mendieta to take place secretly tomorrow morning.

For the first time a majority of the Student Directorate have sent word to Saladrigas that they desire the support of the leaders of the A.B.C. in effecting an immediate change of government but the A.B.C. leaders are unanimously opposed to any agreement with the students. They feel that the students are responsible for the disasters of the past 6 weeks and that no solution is possible unless it comprehends their complete elimination from political activities. The A.B.C. directors are willing to support either the parliamentary form of government solution, as already communicated to the Department, or the placing of Mendieta in the Presidency. They will not agree to the plan proposed by Fernando Ortiz, and referred to in my telegram of October 23, 11 p. m.

Rubén de León, the foremost member of the Student Directorate, left this morning by airplane for Mexico. He gave as his ostensible reason for making this voyage, at a moment of the gravest tendencies for the government in which he has played so conspicuous a part, his desire to attend the centennial anniversary of the school of medicine of a university in Mexico. . . .

WELLES

837.00/4279 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 26, 1933—11 a. m.

[Received 2:30 p. m.]

398. At 2 o'clock this morning a large bomb exploded with great force at the entrance to the house of Colonel Mendieta, Chief of the

Unión Nacionalista. Considerable damage was done. Colonel Mendieta informs me that it was a time bomb and that the explosion took place only a few minutes after he had entered the house.

His conversation with Batista yesterday resulted in the latter agreeing to cooperate completely with Colonel Mendieta in solving the existing situation. He requested Mendieta to advise him at the earliest possible moment of his decision as to the best plan to pursue in the interest of the country but expressed the hope that the assumption of the Presidency by Mendieta now would not be indispensable since he believed that it would be more in the interest of the country if Mendieta were elected for the next constitutional term. Mendieta appears to be entirely satisfied with the conference. A meeting will be held this afternoon at 2 o'clock between Mendieta and his fellow directors of the Unión Nacionalista, the directors of the ABC and Miguel Mariano Gómez, to determine upon the reply to be given to Batista.

In the meantime Batista's own position is rapidly weakening. I was confidentially informed yesterday that four out of the five commanders of barracks in Habana had agreed to take immediate action to oust Batista replacing him with Colonel Perdomo, in command of Camp Columbia during the Céspedes Government, and to force the immediate resignation of the Grau San Martín regime. One of the commanders involved is Major Rodríguez who now commands Camp Columbia where Batista's headquarters are located. Gómez, who is involved in the plan, has urged postponement until the opposition leaders can reach a complete and detailed accord.

Grau San Martín yesterday held two Cabinet meetings to consider plans suggested for a concentration government. The parliamentary plan which he sent me word a week ago he would support was rejected by the students although he had previously advised me that the students were in favor of it. They are now going through the form of studying another plan similar to that outlined by Fernando Ortiz although with full knowledge that none of the opposition members will agree to it.

Innumerable arrests were made by the police last night, among them some 25 arrests for political motives including 3 women and over 200 labor leaders. All of those arrested were imprisoned. Some 33 soldiers and noncommissioned officers in various barracks were likewise arrested for conspiracy.

There is such hostility to the government in Habana today and such widespread resentment throughout the laboring classes as well as among the armed forces that disturbances in the city appear inevitable in the near future.

WELLES

837.00/4281 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 26, 1933—11 p. m.
[Received October 27—12:14 a. m.]

402. The meeting of the delegates of the political parties this afternoon resulted in the unanimous agreement to support Mendieta for the Provisional Presidency with a non-political Cabinet; to draw up immediately a program of government limiting the duration of the government to a period of from one and a half to not more than two years specifying each step to be taken until national elections are held and guaranteeing the security of Batista and the Army in general. It was further agreed to present this agreement to Batista in accordance with the understanding reached between him and Mendieta yesterday.

WELLES

837.00/4292 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 27, 1933—midnight.
[Received October 28—2:18 a. m.]

406. Batista has sent word tonight that he is in full accord that Mendieta as Provisional President with a Cabinet of outstanding men and a legislative assembly composed of representatives of all political factions, labor, commerce, finance and the university is the only solution that promises success. He has informed Mendieta that he will at once take the necessary steps to carry out this program. He has, however, indicated that he desires Carbo appointed Secretary of the Interior and War. Neither the opposition parties, the commercial groups, nor Mendieta himself, will agree to the proposal. Negotiations on this point will continue tonight and it appears probable that the insistence of Batista for this appointment will be abandoned.

WELLES

837.00/4298 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 29, 1933—1 p. m.
[Received 4:10 p. m.]

410. After 36 hours of continuous negotiations as the result of which a detailed program was drawn up by common accord between the Directors of the Nationalist and A. B. C. parties with the agreement and support of Batista for a Provisional Government headed by Mendieta, the latter late last night went back on the assurances he had

given the leaders of his own party and the leaders of the A. B. C. and refused to accept the Provisional Presidency. His refusal is due primarily to his fear that Batista cannot control the Army and that he himself, as he puts it, would merely be Batista's prisoner. He has likewise been influenced to refuse the Presidency by certain members of his own party who do not wish him to injure his chances for the constitutional term during which their own personal interests would be better served. The leaders of the A. B. C. and many of the leaders of his own party are highly indignant at his refusal and the attitude he has now adopted makes it improbable that the A. B. C. will consent to a fusion with the Unión Nacionalistas.

Under these conditions, in view of the extreme gravity of the situation here and the very definite possibility that the general strike which is scheduled for tomorrow will give rise to a communistic movement, the extent of which is as yet incalculable, I have urged the adoption of the plan proposed by Fernando Ortiz providing for the retention at least temporarily of Grau San Martín as President with a completely new Cabinet composed in accordance with the desire of the main opposition parties and with a council of state or legislative assembly having control over all Presidential decrees and having the capacity to reject Presidential appointments and composed like the Cabinet of individuals selected by common accord between all of the opposition parties, as the only remaining solution that shows any signs of becoming successful.

In conferences last night with leaders of the Nationalist and A. B. C. parties I expressed to them this point of view and ascertained that they would be willing to consent to such a plan in preference to no plan at all and a probable complete breakdown of the government; they are meeting this morning and this afternoon with Ortiz, who is acting as intermediary between them, and Grau San Martín and I am inclined to believe that a final agreement on this basis can be arrived at before tomorrow. Grau San Martín stated to Ortiz last night that he would agree to any Cabinet and any legislative assembly, requesting only that the present incumbents in the Treasury and Labor Departments be retained.

The former, Despaigne, is acceptable to the opposition; the latter, Giraudy, is not.

WELLES

837.00/4297 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 29, 1933—5 p. m.

[Received 7:55 p. m.]

411. I had a conference this morning with Miguel Mariano Gómez. He told me he would support the Ortiz plan of government and the

program agreed upon recently by the opposition leaders provided it was impossible to procure a change in the Presidency. He is in touch today with the five recently promoted sergeants opposed to a continuance of Grau San Martín, four of them in command of the key barracks in Habana and the fifth in command of the troops in Santiago. If he believes that they can successfully bring about a complete change of government without disorders he will support them. If successful the result would then be a government set up in accordance with the Ortiz plan and program but with a new President and a new Chief of Staff. If he does not obtain satisfactory assurances within 48 hours he will support the Ortiz plan *in toto*.

Batista this morning sent word to me that Mendieta must be forced to agree to serve as Provisional President; that he was the sole candidate in whom all political leaders and the country as a whole had confidence and that if he were requested by all elements to serve Mendieta must consent.

I am continuously urging upon all the necessity for a peaceful solution and the fatal results which are bound to occur if, through conspiracies, the Army is split up into factions. The consensus of opinion, I am glad to say, is against revolution and against a new *coup d'état* but the latter is a definite possibility if an agreement on the basis of Mendieta or upon the basis of the Ortiz plan is not reached and carried out immediately.

WELLES

837.00/4301 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 29, 1933—11 p. m.

[Received October 30—7:53 a. m.]

413. Batista has sent me word tonight that a change in government is imperative. He will insist that Mendieta accept the Provisional Presidency and if he persists in his refusal he will urge Gómez to accept the position. He states that he will only ask that the Secretaries of the Interior and of War be appointees in whom he has confidence. He advises that he will tonight urge the Student Directorate of their own initiative to suggest the change but that if they refuse he will force them to abandon politics and return to the university.

With one exception all of the small civilian organizations supporting Grau San Martín have now withdrawn their support publicly. The general public expects the fall of the government tonight or tomorrow although the change will not in my opinion take place before the middle of the week.

The general strike announced for tomorrow will not materialize as planned. Some of the unions will strike but the Army has forced

Green
1934
411
unreplied

several of them including laborers of the Shell Mex Company to return to work tomorrow and consequently the lockout of the Standard Oil and Sinclair companies will be revoked.

WELLES

837.00/4304 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 30, 1933—11 a. m.

[Received 1:40 p. m.]

415. My telegram No. 413, October 29, 11 p. m. I had late last night a conference with Mendieta. We discussed the desperate situation of the country and the problems arising from student activities, the imprisonment of officers and present conditions within the Army. I told Mendieta with regard to the former that this afternoon the Student Directorate and the Grau San Martín government would be formally disauthorized by the university students and that in the Student Directorate itself all but five or six are hostile to the present regime and would favor a new government. I further stated that Batista's anticipated ultimatum to the students would hasten the resumption of normal university life and the withdrawal of all students from interference in the government. I expressed my realization of the extreme difficulties involved in the necessary reorganization of the Army but at the same time my conviction that Batista would be willing to cooperate wholeheartedly with Mendieta for this purpose and would strongly favor the return of a large percentage of the former officers to commands in the Army.

At the conclusion of our conversation Mendieta gave me positively to understand that if all of the political parties, representatives of commerce and industry and the Army through Batista requested him to accept the Provisional Presidency he would be willing to do so.

WELLES

837.00/4303 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 30, 1933—noon.

[Received 1:15 p. m.]

416. Personal for the Under Secretary. Referring to our telephone conversation, every sign seems to indicate a change in government here which would make prompt success possible. I believe change will take place this week and if so, I could be relieved a week or so thereafter or as necessary [*sic*] as soon as necessary measures of economic assistance to new government had been initiated.

WELLES

837.00/4306 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 30, 1933—11 p. m.
[Received October 31—12:18 a. m.]

417. The University Student Assembly this afternoon was attended by about 1,500 students. The meeting from beginning to end was in continuous disorder. Chibas, a member of the Directorate, was permitted to make a speech, not in that capacity, but solely as a student. He announced that the Directorate had delivered an ultimatum to Grau San Martín "to change the identity of the government" before November 4th and requested those supporting the Directorate to leave the hall with him. About 100 left with him. The remaining 1,400 students are still in session. All of these oppose the government and the Directorate.

WELLES

837.00/4321 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, October 31, 1933—10 p. m.
[Received November 1—12:45 a. m.]

419. Batista requested urgently an interview with Mendieta this afternoon. The latter postponed the meeting until late tonight in order to be afforded the opportunity for a final agreement with the other political leaders.

Batista has stated tonight that he is willing to place the entire decision as to the solution in Mendieta's hands but that the solution must be reached immediately. The two possibilities are the Ortiz plan which would permit the retention of Grau San Martín with an entirely new Cabinet selected by the opposition and a legislative assembly vested with some executive functions and composed of individuals selected in accord with the opposition, or the Provisional Presidency of Mendieta with a completely new government.

The situation tonight appears to promise an immediate crisis and Batista is apprehensive; the chief of the national police and two of the commanders of the four remaining armed forces in Habana went to see Mendieta this evening to urge him to accept the Presidency, and it is obvious that unless a solution is rapidly found the Army will disintegrate. At this moment it appears likely that Mendieta will finally reach an agreement with Batista tonight.

WELLES

837.00/4322 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 1, 1933—11 a. m.

[Received 12:05 p. m.]

420. Mendieta last night had his anticipated meeting with the other political party leaders and agreed definitely upon a program and upon most of the names for a new provisional government. He was then visited by the five members of the Student Directorate who have been outstanding in the Grau San Martín government. The students urged him to support the Ortiz solution permitting the retention of Grau San Martín but giving him to understand that should he refuse to accept it they would not openly oppose a provisional government headed by himself. Mendieta's meeting with the students lasted so late that he did not have his anticipated meeting with Batista.

Batista at 2 o'clock this morning reached the following decisions: to call this morning a meeting of the four members of the revolutionary junta who had elevated Grau San Martín to the Presidency and obtain from them a demand for Grau's immediate resignation; thereupon to call at 1 p. m. a meeting of all of the opposition leaders and the individuals who had taken part in drafting the revolutionary proclamation which had been issued as a result of the mutiny of September 4th and which had caused the constitution of the present revolutionary government; to state to them that the Army considered that the present government had resulted in absolute disaster to the Republic and that in the interest of Cuba a new provisional government was imperative and that only a provisional government headed by Colonel Mendieta offered any sure prospect of success.

WELLES

837.00/4325 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 1, 1933—11 p. m.

[Received November 2—12:52 a. m.]

421. Mendieta has delayed the carrying out of the plan determined upon by Batista and supported by the political leaders in the hope that he can persuade the Student Directorate to agree to it. They are so far completely recalcitrant and none of the opposition groups have any belief that the Student Directorate will accept any solution except one based upon the continuance of Grau San Martín in the Presidency. Mendieta has, however, now taken the position that he must make every effort to obtain the acquiescence of the seven or eight leading members of the Directorate before he will consent to form a government.

This new evidence of vacillation has created a crisis which I think will force Batista to request the political leaders to agree upon some other candidate.

WELLES

837.00/4329

The Ecuadoran Minister (Alfaro) to the Secretary of State

[Translation]

No. 3

WASHINGTON, November 1, 1933.

MR. SECRETARY: The Minister of Foreign Relations, in compliance with the request of the Legislative Power, instructs me to bring to the knowledge of Your Excellency's enlightened Government the following resolution passed on September 16, last:

"The Congress of the Republic of Ecuador:

Whereas: According to the principles of international public law, States are sovereign and are the only ones called upon to judge and settle their own problems of domestic politics;

Resolves: 1. To proclaim that it would view with sympathy the non-intervention of the United States of North America, as well as of any other State, in the domestic politics of the sister Republic of Cuba; and 2. To communicate this Resolution to the Government of the said Republic, to that of the United States of America and to those of the countries of Spanish America."

I avail myself [etc.]

C. E. ALFARO

837.00/4329

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] November 2, 1933.

Captain Alfaro, Minister of Ecuador, came in and handed me the attached note,⁶⁵ communicating at the request of the Legislature of Ecuador a resolution adopted by that body on September 16 stating, among other things, that the Legislature "would look with sympathy upon non-intervention by the United States as well as by any other state in the internal politics of Cuba."

Captain Alfaro, in handing me the note, said that he wished to put on record the fact that this communication was not to be regarded as in any way a criticism of the policy of the United States towards Cuba. On the contrary, the Ecuadoran Government appreciated the policy of the United States in having refrained from any act of inter-

⁶⁵ *Supra.*

vention towards Cuba and thought that this policy had had an excellent effect throughout Latin America.

I said that, as Captain Alfaro knew from previous conversations with me, our policy had been and was today to avoid at all costs any possibility of intervention in Cuban affairs, and that we earnestly hoped that the Cubans themselves would work out a solution of their problems.

EDWIN C. WILSON

837.00/4326 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 2, 1933—11 a. m.

[Received 1 p. m.]

422. I had an interview with Mendieta and Mendez Peñate last night. The former states he is unwilling to reach any conclusion as to accepting the Provisional Presidency without at least the tacit acquiescence of the more unruly members of the Student Directorate. He tells me that he has no doubt from what they have said to him that they would be equal to provoking an encounter with the soldiers should a new government be installed in the course of which several students might be killed and the government would then have to confront the concerted antagonism of all of the student body because of the death of these "martyrs". In such event Mendieta says the students would conduct a campaign against the government not only through acts of terrorism but also by fomenting strikes and other labor disturbances. I suggested to him that it seemed highly unreasonable to attribute more importance to the selfish opposition of a score of immature students than the unanimous desire of the rest of Cuban public opinion for a government headed by him which could restore peace to Cuba and commence the task of economic rehabilitation and that the tragedy which he foresaw could readily be averted by taking into custody the principal student agitators as a preventive measure.

Mendieta gives me the distinct impression that he is unwilling to face the responsibility of the moment now that the situation has so shaped itself that a definite decision on his part is required. He, Torriente and Mendez Peñate are meeting with the Student Directorate this morning and again this afternoon but I have no reason to believe that the attitude of the students will be modified.

After repeatedly requesting interviews with Mendieta during the past 24 hours Batista finally persuaded Mendieta to see him early this morning just after my own interview with Mendieta terminated.

The crisis therefore continues in increasingly acute form. Every newspaper this morning urges Mendieta to accept the Presidency as the sole means of saving the country. One of them, *La Manana*, concludes a front page editorial with the following appeal:

"Colonel Mendieta, if you have any scruples, overcome them in view of the dramatic evidence of this Cuban crisis. Let it never be said that because of timidity or self-interest, which must always [be?] sacrificed on the altar of one's country, this opportunity of saving the Republic has been lost".

The City of Habana was in a state of continuous disturbance all last night. Nine bombs exploded in various points, one of them wrecking the offices of *La Semana*, the paper published by Sergio Carbo. A bomb brought into the central police station late yesterday afternoon killed one policeman and seriously wounded four others. Shooting occurred in all parts of the city and shots were fired at the Palace by passing automobiles.

WELLES

837.00/4331 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 3, 1933—noon.

[Received 2:06 p. m.]

424. Batista was summoned to the Palace by Grau San Martín last night but refused to attend the interview.

At 10 o'clock he met with the four members of the revolutionary junta which selected Grau for the Presidency together with Prio Socarras of the Student Directorate; Carlos Hevía; Alejandro Vergara; the two students Barrientos and Barreras (accused of complicity in the murder of the President of the Senate 2 years ago); and Nogueira and Labourdette, both of them expelled from the revolutionary parties to which they had previously belonged. The four last named were not invited to attend the meeting but were brought by Prio Socarras on the ground that they were present at Camp Columbia when the mutiny was declared on September 4th. The discussion lasted for some hours. Of the four members of the revolutionary junta Franca, Irizarri and Portela favored a complete change of government. The others favored the retention of Grau as a figurehead and a national government of concentration. Batista declared that the Army desired a government that was responsive to popular demand and that in no event did he believe the retention of Grau San Martín could satisfy public opinion.

In view of Mendieta's refusal to reach a definite decision Batista and the others who demand a complete change of government were

at a disadvantage in that they were unable as yet to propose the name of a new Provisional President and a definite program for a new government. No formal action was taken. It was solely the consensus of opinion to promote with the utmost rapidity an understanding between all of the revolutionary parties which would result in the creation of a government that all could support.

The negotiations between Mendieta and the other directors of the Unión Nacionalista and the Student Directorate broke down entirely yesterday afternoon as I had anticipated. Mendieta stated that under no conditions would his party agree to any formula based upon the retention of Grau in the Presidency and the students representing the irreconcilable minority of the Student Directorate declared that they would agree to no compromise except one based upon the retention of Grau. A referendum is to be taken during the course of tomorrow among the various classes of the university students to ascertain formally the attitude of the student body with reference to, (a), continued intervention of students in the government and, (b), the dissolution and disauthorization of the Student Directorate.

The trend of opinion among the political parties is now turning strongly towards Gómez.

I had a conference with Dr. Gómez last night. He told me that no personal interest and no political ambition would enter into his consideration of accepting the Provisional Presidency. He said that no solution could possibly save Cuba in this crisis except a completely new government supported by an overwhelming majority of public opinion and in which business would have confidence. He stated that no one had done more than he to help the students during the past 3 years but that should he head a new government he would deal with the students in the event that they attacked the government or provoked public disorder in exactly the same manner as that in which he would deal with any other lawbreaker. He is convinced that the university must be immediately opened and that once this is done the student problem for the time being will be solved. He told me that in his belief it was a greater honor to undertake the Provisional Presidency today than to take over the government at any other time because of the gravity of the moment and because of the fact that the safety of the Republic was obviously at stake. He added that the sole reason for any hesitancy on his part would lie in lack of confidence in Batista and in the Army generally. Word having been brought to him that Batista desired to ascertain if he would accept the Presidency, he replied that he desired 24 hours in which to consider the Army situation before giving a definite reply. Gómez is now enthusiastically supported by all of the political parties with the possible exception of that of Menocal and is perhaps more highly regarded

by business circles in Cuba than any other outstanding political leader. As Mayor of Habana he had an efficient and honest administration and while his popularity in the country is not comparable to that of Mendieta except in the provinces of Santa Clara and Oriente the prestige of his father would be of great advantage to him.

WELLES

837.00/4337 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 4, 1933—11 a. m.

[Received 2:10 p. m.]

426. Negotiations between the chiefs of the political parties were in progress all yesterday afternoon and evening. Batista's attitude continued firmly to be that a final effort should be made by every element to agree upon Mendieta as Provisional President and to insist upon his accepting the office but that failing such effort Gómez was the candidate with the greatest likelihood of forming a successful government. During the afternoon Grau San Martín was handed the written resignation of all of his secretaries and reached the decision himself to resign. At the same time the Student Directorate agreed to withdraw completely from the government of Cuba.

At half past 7 o'clock the *Pais Libre*, a newspaper published by the reporters and workmen of the Pais, was issued with the headline declaring that American intervention had been decreed and bearing on the front page a false cable concocted at the instigation of certain students and alleged to have been sent from Washington by special correspondent stating that the United States Government has determined upon intervention and that Marines would be landed and the Cuban soldiers disarmed by force. A mutiny immediately developed in the Cuban Navy barracks and agitation of the most dangerous character broke out in Camp Columbia and in the other Army barracks. I immediately telephoned Batista to send his aide and I handed him a written statement that the rumor was completely false and without foundation of any character. Batista has [had?] my statement read over the radio, announced it himself at Camp Columbia and had copies sent to the other Army and Navy barracks. The agitation promptly died down but the harm had already been done. The promoted sergeants in the Army and Navy were suspicious that any change of government favored by Batista might imply danger to themselves and their attitude was reflected in the meeting of the revolutionary representatives called together last night at Sergio Carbo's house to meet with Grau San Martín and the students and to agree upon a new government. After long discussion which lasted until 4

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J.S. Wells

a. m. this morning Grau San Martín withdrew his resignation and the individuals present at the meeting who were the same individuals who attended a similar meeting the night before declared their continued support of Grau San Martín.

The governmental crisis therefore continues. All governmental activities are at a standstill and the situation this morning in brief is as follows:

Grau San Martín remains in the Presidency supported by a few individuals. The Student Directorate has declared its intention of withdrawing from the government and will in all probability disband either before or after a vote of censure has been passed upon it today or tomorrow by the university student assembly. The Army is in a state of unrest as a result of the false cable published last night regarding intervention, although still controlled by Batista. The political parties and the remainder of the country are more than ever determined that Grau must go.

WELLES

837.00/4338 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 4, 1933—5 p. m.

[Received 7:40 p. m.]

427. Dr. Antonio Guiteras, the Communist Secretary of Gobernación, made his resignation effective this morning. He gave it as his opinion that the failure of the government was due to the fact that it did not turn sharply to the Left, and announced his intention of working for a government composed of soldiers, sailors, small shopkeepers and workers. He made evident a definite break between himself and Batista, because Batista was resolutely opposed to Communism and the disorders promoted by labor agitators, and threatened to get rid of Batista in the near future. So far as I can ascertain, the other Cabinet secretaries are uncertain whether their resignations accepted yesterday afternoon still remain effective in view of Grau's withdrawal of his own resignation.

A university student referendum is in progress this afternoon. The Student Assembly meets tomorrow morning and the result of the votes on the following two points will then be announced:

(a) whether the Student Directorate should cease all governmental activities;

(b) whether the students approve the activities of the self-appointed representatives of the students during the past 2 months.

Torriente this morning informed me that he and the other directors of the Unión Nacionalista Party were so incensed at the attitude

adopted by Colonel Mendieta in refusing to assume the responsibilities of government when they were offered to him that they intend to withdraw their support from Mendieta and leave the party organization as soon as a solution of the present crisis has been reached.

WELLES

837.00/4339 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 5, 1933—1 p. m.

[Received 2:30 p. m.]

428. The referendum of the university students taken in an orderly manner yesterday afternoon showed an overwhelming majority opposed to the continuation of student activities in the government and a similar majority against the present Student Directorate.

In order to attempt to prevent a vote of censure by the meeting of the student delegates the Student Directorate last night formally dissolved. Some of the members at once announced that they would remain in the Palace "as individuals" to "advise" Grau.

The dissolution of the Directorate and the vote of the university students officially deprives Grau San Martín and his government of the apparent support of the university which he had made it appear he possessed.

The relations between Batista and Grau are increasingly strained.

WELLES

837.00/4343 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 6, 1933—noon.

[Received 3:55 p. m.]

430. The student paper *Alma Mater* yesterday morning carried a front page editorial demanding my immediate withdrawal from Cuba on the ground that I was "an envoy of Wall Street"; that I was conspiring to establish a government in Cuba which would obey orders from Washington; and that I was engaged in preventing "a Cuban delegation from reaching Montevideo to unmask the shameful conduct of the Yankees". This tendency was repeated yesterday afternoon at a meeting in the university in which the members of the former Student Directorate joined forces with the Left or Communist wing of the student groups. A speech was made by Eddie Chibas, author of the cables sent to Latin America last September 9th accusing me of having taken the Cuban Army officers to the National Hotel, in which

he urged a student parade in support of my leaving Cuba and claimed that I was "working for the interests of my own Government".

The public recognizes, judging by the press, that the student groups are now effectually divided and with the dissolution of the Student Directorate and as the result of the referendum demanding the withdrawal of students from governmental activities the influence of the students in so far as their support of the present government is concerned is practically null.

I was visited last night by the two foremost leaders of the groups in Oriente Province which had been organized against the Machado Government. They told me that these groups were now consolidated with the old political parties and that complete and comprehensive preparations had been made for an immediate revolution in Oriente against the Habana government. They stated that they were supported by all of the soldiers in the province with the exception of the 250 men recently sent to Santiago from Habana; that the old officers were ready to take charge of the troops at a moment's notice and that approximately 11,000 men were under orders. They told me that whether the government in Habana was overturned or not the revolution in Oriente would break out; that the situation there was absolutely intolerable and that it had only been with the utmost difficulty that the movement had been so far controlled and then only because of their belief that the Habana government was to be replaced last week by a government headed by Mendieta. I did my utmost to persuade them [to] hold back. I told them that in the condition in which Cuba now was that civil war would have almost fatal effects and in any event make infinitely more difficult the process of economic rehabilitation which was the prime necessity of the moment. They assured me that they would make one last effort with the Habana leaders for a pacific settlement but they warned me that any unexpected spark in Oriente might start a conflagration which they themselves could not control.

Negotiations proceeded yesterday in Habana for the purpose of consolidating opinion of the political parties in favor of Gómez. He has now definitely determined to accept the Provisional Presidency without any more hesitation. In the course of the day it will be ascertained whether Batista feels that he has sufficient control of the troops in Habana to make a move successful. Batista's own violent animosity to Grau San Martín which is now growing due to his knowledge of a plot favored by Grau Saturday to seize Batista and replace him with another sergeant makes it inevitable that Batista will move against Grau provided he can be reasonably confident of the loyalty of the soldiers in the various Habana barracks.

The newspapers continue to clamor for Grau's withdrawal and the general feeling regarding Grau's position is reflected in a cartoon in

La Manana this morning which supported Grau until last week in which those individuals who still support Grau are referred to as "one or two corporals".

WELLES

837.00/4342 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 6, 1933—1 p. m.

[Received 2:50 p. m.]

431. Personal for the Under Secretary. Referring to our telephone conversation this morning, the possibilities of a momentary change in the situation are such that it is impossible to foresee with any assurance what line the developments may take. General conditions are more precarious than they have been at any moment during the last 2 months. The possibilities are as follows:

(a)—An immediate *coup d'état* against Grau by Batista which if successful will result in the formation of a center government headed by Gómez or a military dictatorship;

(b)—Outbreak of revolution in Oriente and Camaguey Provinces;

(c)—General strike tomorrow instigated by the Communist organization;

(d)—Displacement of Batista through violence by elements in the Army upon whom Guiteras the present Secretary of Gobernación is working;

(e)—Reorganization of the government under Grau bringing into the Cabinet new elements probably of Communist tendencies which could only result in repeated revolutionary attempts against it.

Under these circumstances I cannot help but feel, much as I would prefer accompanying the Secretary to Montevideo, that a change in the Embassy at this moment will be prejudicial to our own interests. The personal contacts and relationships that I have formed during the past 6 months are necessarily of value in a critical moment like this and it is because of this that I believe I should not leave Habana until after a solution of one kind or another has been found.

WELLES

837.00/4348 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 7, 1933—noon.

[Received 2:20 p. m.]

434. My 364, October 14, 5 p. m. The letters which Seigle was able to obtain are published this morning in the student paper *Alma Mater* on the front page. Four of the letters are signed. One of the officers

states that he believes that the "condition which existed in the National Hotel was due to the hopes of the attitude which the Ambassador of the United States might assume as mediator in the problem of the Army and Navy officers."

Another one states that he believes that the attitude of the American Ambassador contributed to encourage a great number of officers "without being able to specify upon what the opinions of those officers was based". Two other letters state in general terms that they believe the attitude of the officers was due to their encouragement by me. The fifth letter and the only one in which any definite charge is made alleges that I made Colonel Sanguily move to the hotel as well as all the other officers through the offer of protection and assistance. It is significant that this letter is unsigned and the newspaper states that the signature is omitted "for reasons of high policy".

In any discussion of this matter with the press I shall limit myself to referring to the statement issued by the Department on this matter and to the previous statements which I have made here at the Embassy.

WELLES

837.00/4349 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 7, 1933—5 p. m.

[Received 6 : 32 p. m.]

436. My 434, November 7, noon. The President and Secretary of the Cuban Red Cross Dr. Angulo, and Señor Victor Mendoza, who in that capacity have access daily to the Cuban officers who are imprisoned or in the hospitals, have just visited me to state that they have been requested by the officer body to inform me of the profound indignation caused the officers as a whole by the letters published in the *Alma Mater* this morning. The officers in the hospitals are already signing a letter to be published in the *Diario de la Marina* tomorrow denying absolutely the insinuations and charges made in the letters published this morning, and such of the officers as are imprisoned who are enabled to do so will likewise sign this denial.

Dr. Angulo told me that two of the officers who signed the letters published this morning told him today that they had done so under false pretenses. Dr. Angulo further stated that Octavio Seigle had visited the hospitals on October 12th and on October 14th . . . in order to obtain further signatures to charges of this character and had been unable to do so.

Dr. Angulo was likewise requested to state to me that the officers as a whole were confident that a monetary inducement had been used in two out of the five cases where signatures were obtained.

WELLES

837.00/4354 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—10 a. m.

[Received 11:45 a. m.]

440. At 3 o'clock this morning, by concerted arrangement, the oppositionists in Dragones and Ambrosio barracks evacuated, passed through the city with all of the arms and ammunition and other supplies from those barracks and joined the opposition garrison in the fortress of Atares situated on a high hill dominating the lower part of the harbor. Not a shot was fired to prevent this movement. So far as can be ascertained the total force now defending Atares amounts to approximately 3,000 men fully armed and with ample ammunition. The leaders of the rebellion appear to be Colonel Collazo, Major Leonard, Blas Hernandez, and Rafael Iturralde.

The major part of the province of Santa Clara outside of the capital city is reported to have joined the revolution and to be in arms under the command of Colonel Carrillo. Reports received early are that the entire province of Matanzas is in arms including the soldiers, all supporting the revolution. No dependable reports as yet have been received from the rest of the interior.

I beg to request that reports of the above character be not given to the press by the Department. All reports given out by the Department are invariably cabled to Habana and republished in the press here and under present circumstances it is desirable that no reports coming from me be made public.

WELLES

837.00/4353 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—10 a. m.

[Received 11:35 a. m.]

441. Dr. Guiteras, Secretary of the Interior and War, has just stated to my contact with him that it is intended in the course of the day to hold summary courts martial and execute immediately all soldiers or police who joined the opposition movement and who have been captured. I fear that the opportunity will be taken on some pretext to execute at the same time some of the officers who have been imprisoned since the National Hotel incident. I am advising the Spanish Ambassador of these facts in order that he may, as Dean of the Diplomatic Corps, make such representations as may be possible in the matter on the grounds of humanity.

WELLES

837.00/4355 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—11 a. m.

[Received 11:55 a. m.]

442. Later and perhaps more accurate reports tend to show that a portion of the oppositionists evacuating Ambrosio and Dragones barracks last night passed through the outskirts of the city into the province of Habana. Only seven or eight hundred men joined the garrison at Atares. The total garrison there is consequently slightly over a thousand and some 1,500 oppositionists proceeded into the country. The government officers admit that all of the arms and ammunition were taken from the evacuated barracks.

The commanding officer of the destroyer at Bañes reports that representatives of the A.B.C. arrived there yesterday consisting of a revolutionary force with the apparent support of the local groups.

Cienfuegos and Santiago de Cuba are reported to be quiet.

WELLES

837.00/4360 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—1 p. m.

[Received 3:40 p. m.]

443. Certain elements of the A.B.C. have been broadcasting on the radio during the morning that beginning at 3 p. m. this afternoon foreign property and particularly American and British property would be destroyed and that foreigners themselves would be attacked. I have not until now attributed much importance to this propaganda but I have just received the visit of the head of one of the so-called "action" sectors who visited the Embassy at the risk of his own life since orders have been given for his immediate capture, to inform me that the members of his own group were completely out of hand and notwithstanding his efforts to prevent it would probably attempt to carry out wholesale destruction of foreign property tonight with the purpose of forcing intervention. He said the lives of foreigners would be in danger. These men have been made desperate by the reports circulated that many of the A.B.C. members had been summarily executed and by the realization that they can hope for no guarantees of any kind should they be defeated.

There is a great deal more shooting throughout the city this morning than even yesterday. Shooting in front and to the side of the Embassy was frequent. An anarchic situation which may have very serious possibilities seems imminent for tonight particularly if the electric

light plant is closed and the city is without light. Several shells have already struck the plant and if any shell strikes the high pressure boilers the plant will be wrecked and many employees killed. The management may consequently be forced to close down the plant.

WELLES

837.00/4362 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—4 p. m.

[Received 6:14 p. m.]

445. After bombardment lasting 2 hours a red cross was hoisted on Atares Fortress. Batista's soldiers, however, continued to fire with artillery and from a gunboat upon it. A white flag has now been hoisted. Firing upon the fortress, however, still continues.

A Government report intercepted by the *Richmond* states that Batabaño in the southern portion of the province of Habana is in the power of the revolutionists and reports received by the American press correspondents confirm reports earlier received from Cuban sources that the revolutionists are marching through the southern portion of Matanzas and Habana Provinces.

The anticipated revolutionary movement in Oriente Province appears to have commenced with an outbreak in Palma Soriano to the north of Santiago.

WELLES

837.00/4363 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 9, 1933—5 p. m.

[Received 9:05 p. m.]

446. The oppositionists who have surrendered at Atares amount to some 400. I am advised that the remainder who had gone there during the night left the fortress before noon with their arms and proceeded towards the south of the province.

WELLES

837.00/4368 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, November 10, 1933—7 p. m.

[Received 8:05 p. m.]

449. Habana has remained fairly quiet on the surface today. There has been shooting in a few sections. There is deep apprehension of the

result of the courts martial being held this afternoon. Captain Creecy at my request has remained at Camp Columbia all day and is in contact with Batista and his aides. Assurances are still maintained that no civilians will be executed.

The commander of the destroyer at Nipe Bay has radioed unconfirmed reports that a concentration of revolutionists is taking place in that section of Oriente; that some 500 have gathered at Cristal, 10 miles from Preston; and that a small detachment of soldiers has gone to Tanamo to put down disturbance there.

There is unquestionably developing an extremely violent reaction in every element in Habana against the present government because of the incidents of yesterday and because of the slaughters of some prisoners after they had surrendered. There is an open demand for intervention by the United States. The foreign colonies are criticising the failure of the United States to land troops. I have stated today, as I have consistently throughout the past 2 months, that my Government had officially declared that warships had been sent to Cuba to protect American and foreign lives and for no other purpose; and that it was likewise our declared intention to adopt no policy which would prevent or hinder the Cuban people from freely determining their own destinies.

I have noted in certain reports from the American press of today that the assertion is made that recognition of the Grau government would have prevented revolutionary outbreaks. I do not believe that any competent observer present here during the past 2 months would confirm that assertion. Recognition would probably have delayed revolt but it would not have prevented it. And recognition would have been construed by the bulk of the Cubans as evidence of our willingness to ignore their right to determine their own destinies by lending the support both moral and material which our recognition represents to a government which had come into power after [*against?*] the desires of the great majority of the Cuban people.

WELLES

837.00/4391 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, November 13, 1933—1 p. m.

[Received 3:20 p. m.]

455. In view of the increasingly complicated problem presented as the result of recent developments here, I feel it is very desirable that I have an opportunity of discussing the situation personally with the President and with the Department, and for that purpose I suggest that I be authorized to return to Washington within the next few days.

There has been such a virulent propaganda of absurd and entirely baseless charges directed against me by the agitators close to Grau San Martín and the Student Directorate during the past weeks that if the President authorizes my return for conference it would make the position of the Embassy stronger if the Department would announce on the day I leave here (and not until such time) that I am proceeding to Washington at my own request for the purpose of discussing the Cuban situation with the President and with the Department and that I will thereafter return to Habana.

Should the policy we have followed until now be changed it would be preferable for Caffery to substitute me as special representative as it might be preferable in any event. But the authority of the Embassy would be gravely impaired if any suggestion to that effect were made known now.

WELLES

123 W 451/136 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, November 14, 1933—2 p. m.

126. Your 455, November 13, 1 p. m. I have consulted the President, who agrees with you that it would be helpful to discuss recent developments. Inasmuch as the President will arrive in Warm Springs on Saturday afternoon, he suggests that you come to see him there on Sunday.⁶⁶

PHILLIPS

837.00/4435

Statement by the Acting Secretary of State^{66a}

In view of recent developments in Cuba, Ambassador Welles has requested permission to have an opportunity to discuss the situation with the President.

Inasmuch as the President is to be in Warm Springs for the weekend and as Warm Springs can be quickly reached from Habana, the President has indicated that he will receive Mr. Welles there on Sunday. After his conference, Mr. Welles will return to Habana.

⁶⁶ November 19.

^{66a} Issued by the Department as a press release, November 15, 1933.

837.00/4408 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, November 15, 1933—6 p. m.

[Received 8:09 p. m.]

462. There are already strong indications of an urgent desire on the part of the civilian element of the Grau government to come to terms with the opposition groups. Leaders of the organizations known as the A.B.C. Radical and the Ley y Justicia, which withdrew their support from the government 2 weeks ago but supported it when the revolt took place, have visited during the past 24 hours important leaders of the opposition to endeavor to secure their agreement to new compromise negotiations. In a public statement which Sergio Carbo himself issued a definite indication of this desire is given in view of his statement "It is obvious that the government cannot govern against the tide of public opinion."

From accounts which reached me today the civilians in the government with the exception of Grau and Guiteras are exceedingly apprehensive for their own safety and even more apprehensive as the result of the dominating role which the Army is now taking.

The leaders of the Unión Nacionalista are willing to consider a compromise but none of the other opposition leaders will entertain that possibility at this moment. All of the leaders of the A.B.C. have either fled to the United States or are in hiding as is the case of the leaders of the O.C.R.R. Dr. Gómez remains in his house under the strictest surveillance. The Menocalistas are as firmly opposed to compromise as the A.B.C. leaders but with one exception—all of the important figures in the Menocal group are in the United States or in the provinces.

WELLES

837.00/4409 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, November 16, 1933—11 a. m.

[Received 12:40 p. m.]

463. Batista has just sent his aide Captain Hernandez to visit me. The ostensible reason for the visit was for me to receive Batista's assurance that he deeply deplored the attacks which were being made in governmental circles against the United States and against this Embassy in particular and to advise me that neither he himself nor the members of his staff had any participation in those attacks nor had any belief in the allegations made. The statement was further made

by Captain Hernandez that the false and malicious propaganda which was being spread was solely the work of the civilians close to Dr. Grau. It was plain, however, that Batista is very much exercised as to my own views concerning the present situation in the light of the announcement made this morning of my intended conference with the President at Warm Springs on Sunday.

I requested Captain Hernandez to advise Colonel Batista that I appreciated his message and his assurances and that I could only repeat what I had previously said personally to Colonel Batista, namely, that at a moment like this in order to prevent further disturbances and to permit the Cuban people to have confidence in their government and to devote their energies until such time as elections could be held for a new constitutional government towards a reconstruction of their shattered national economy, it should be the purpose of every patriotic Cuban to find through compromise some satisfactory arrangement as the result of which a government in Cuba might be constituted which would be responsive to the natural will and capable of providing guarantees to all Cubans. Hernandez assured me that this was Batista's own desire and that he more than any one else realized the necessity of it. He further informed me that Batista was already working towards that end.

WELLES

123 W 451/144 : Telegram

*The Acting Secretary of State to the Secretary of State, at Sea*⁶⁷

WASHINGTON, November 20, 1933—6 p. m.

11. Press thus far nearly unanimous in approval of recognition of Russia,⁶⁸ stressing trade possibilities and improvement in Far Eastern relations.

Sumner Welles called on the President yesterday at Warm Springs and is now here in the Department. The President announced that Welles will return to Habana in a few days. Welles plans to remain in Habana not more than 2 weeks and upon his return here will assume his duties of Assistant Secretary. Coincident with his return, Jefferson Caffery will proceed to Cuba as Special Representative of the President.

PHILLIPS

⁶⁷ The Secretary was on board the *S. S. American Legion*, en route to the Seventh International Conference of American States at Montevideo. For correspondence concerning the Conference, see vol. iv, pp. 1 ff.

⁶⁸ See vol. II, pp. 778 ff.

837.00/4450 : Telegram

The Secretary to President Roosevelt (Early) to the Acting Secretary of State

WARM SPRINGS, GA., November 22, 1933.
[Received at the White House, 10:57 a. m.]

I have received a letter addressed to the President signed by Raymond Grau San Martín, President of Cuba. This communication was transmitted by Alfred Betancourt, who says it is very confidential and its early delivery to the President most urgent. The letter says briefly that the Grau government has quelled revolt against it; that it purposes to continue the renovating task; that its goal is to enact constitution that Cuba now lacks which will be submitted to a plebiscite of the nation at the earliest possible date thereby ensuring freedom of suffrage and fulfillment of international obligations; that Grau wishes quickly to end his mission and return to the peace of his home; that moved by these longings he is led to request in his own name as well as that of his government that the President put an end "to the perturbing action of Ambassador Sumner Welles"; that Welles has repeatedly disclosed his partiality by communicating and dealing with enemies of the Grau government; that Cuba will welcome any representative of the President's good-neighbor policy et cetera. Please advise whether it is proper for the President to receive this communication. Meanwhile I will hold it.

EARLY

837.00/4450 : Telegram

The Acting Secretary of State to the Secretary to President Roosevelt (Early), at Warm Springs, Georgia

WASHINGTON, November 22, 1933—1:30 p. m.

Reference your wire of today's date. I believe the President should not receive the communication as method suggested for transmitting it is not the proper one to be used in the circumstances. I also suggest very confidentially that caution be exercised in dealing with the intermediary mentioned.

WILLIAM PHILLIPS

837.00/4450/Supp. : Telegram

The Acting Secretary of State to President Roosevelt, at Warm Springs, Georgia

WASHINGTON, November 23, 1933.

We have reduced the statement ⁶⁹ as far as seems possible and submit the following for your comment.⁷⁰

"During the months which have passed since the fall of the Government of President Machado, we have followed the course of events in Cuba with a most friendly concern and with a consistent desire to be of help to the Cuban people.

Owing to the exceptionally close relationship which has existed between our two peoples since the founding of the Republic of Cuba and in particular because of the treaty relations which exist between our two countries, recognition by the United States of a government in Cuba affords in more than ordinary measure both material and moral support to that government.

For this reason we have not believed that it would be a policy of friendship and of justice to the Cuban people as a whole to accord recognition to any provisional government in Cuba unless such government clearly possessed the support and the approval of the people of that Republic. We feel that no official action of the United States should at any time operate as an obstacle to the free and untrammelled determination by the Cuban people of their own destinies.

We have been keenly desirous during all this period of showing by deed our intention of playing the part of a good neighbor to the Cuban people. We have wished to commence negotiations for a revision of the commercial convention between the two countries and for a modification of the permanent treaty between the United States and Cuba. On the economic side, we have been hopeful of entering upon a discussion of such measures as might be undertaken by common consent between the two Governments which would redound to the benefit of both the American and Cuban peoples. No progress along these lines can be made until there exists in Cuba a provisional government which through the popular support which it obtains and which through the general cooperation which it enjoys, shows evidence of genuine stability.

As has already been officially stated, the Government of the United States has neither partiality for nor prejudice against any faction or individual in Cuba. It will welcome any provisional government in Cuba in which the Cuban people demonstrate their confidence. We earnestly hope that in the near future through a spirit of compromise on all sides, the Cuban people themselves will reach some peaceful agreement which may result in general support of a government and thus avoid continued civil disturbance with its attendant tragic loss of life and grave prejudice to the economic interests of the Republic.

⁶⁹ A previous draft submitted by Acting Secretary of State Phillips and Ambassador Welles in a telegram of November 22 to President Roosevelt, not printed.

⁷⁰ The President on November 23 issued the following statement at Warm Springs, Ga. It was released to the press November 24; see Department of State, *Press Releases*, November 25, 1933, p. 294.

Ambassador Welles is returning to Habana within the next few days. As previously announced, upon the termination of his mission which will be in the near future he will return to Washington to resume his former duties as Assistant Secretary of State, and will be replaced by Mr. Jefferson Caffery, now serving as Assistant Secretary of State."

PHILLIPS

837.01/55

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] November 25, 1933.

The Chilean Ambassador, Señor Don Manuel Trucco, came to see me twice recently, on Thursday and Friday. He was very vague as to exactly what he wanted on Thursday, but on Friday he came out with it. His Government wants to know what would be our attitude if various Latin American countries decided to recognize the Grau San Martín Government before the Montevideo Conference convenes.

J[EFFERSON] C[CAFFERY]

837.01/55

Memorandum by the Acting Secretary of State¹¹

[WASHINGTON,] November 25, 1933.

In reply to the Chilean Ambassador's inquiry, I would say that President Roosevelt on the 23rd of November issued a statement setting out the attitude of the Government of the United States to eventual recognition of the Government of Cuba. I would hand him a copy of this statement.

I would say that my Government very much hopes that the other interested governments will take no precipitate action at Montevideo in regard to recognition, which might possibly compromise the success of the Conference there. I would say also that I hope the other interested governments will bear in mind that any action they take might have important consequences on the possibility of the Cubans themselves reaching an agreement for a Government, which represents and is backed by the will of the Cuban people.

WILLIAM PHILLIPS

837.00/4453 : Telegram

The Chargé in Cuba (Reed) to the Acting Secretary of State

HABANA, November 27, 1933—11 a. m.

[Received 12:15 p. m.]

483. Killing of five ex-Army officers has aroused widespread indignation. All five had been accused of responsibility for execution

¹¹ Prepared presumably for Assistant Secretary of State Caffery.

of three Alvarez brothers in the summer of 1932. Batista has promised thorough investigation and punishment of guilty persons if found.

Conciliation negotiations have received a setback due to reported declaration of General Menocal that he would accept no solution involving continuance of Grau as Provisional President and divergent tendencies in ranks of A.B.C.

REED

837.01/47 : Telegram

The Secretary of State to the Acting Secretary of State

S. S. "AMERICAN LEGION", November 27, 1933—noon.

[Received 7:50 p. m.]

13. For the Acting Secretary and Caffery. Please telegraph me at Montevideo the controlling facts and conditions to date against recognition of the Grau San Martín regime in Cuba.

HULL

837.00/4457 : Telegram

The Chargé in Cuba (Reed) to the Acting Secretary of State

HABANA, November 28, 1933—1 p. m.

[Received 2:35 p. m.]

485. The Uruguayan Minister, Dr. Fernandez Medina, who has been acting for the last 10 days as self-appointed mediator with the consent of Dr. Grau, announced to the press last night that his negotiations had virtually terminated with the formulation of a plan of conciliation which he was confident would be accepted by all sectors excepting that of Menocal.

As his plan as described in the press contemplates the continuance in office of Dr. Grau until elections are held and no change in the command and organization of the Army I feel that Dr. Fernandez' optimism as to its acceptance is unwarranted. This impression is confirmed by information that has reached me from opposition sources.

REED

837.01/47 : Telegram

The Acting Secretary of State to the Secretary of State

WASHINGTON, November 28, 1933—6 p. m.

24. Your No. 13, November 27, noon. We have maintained that the criteria of Cuban recognition are: (1) popular support, and (2) ability to maintain law and order and carry on the functions incumbent upon any stable government.

The Embassy at Habana insists that these criteria have not been met. With regard to No. 1, Mr. Welles emphatically expressed to me his judgment that Grau does not have the confidence of the mass of the Cuban people, but is supported by a minority bent upon remaining in power despite all costs. With regard to No. 2, Mr. Welles believes that the Grau regime can maintain order only by the most extreme and dictatorial methods, (although it appears to have strengthened itself by the suppression of the November 8th revolt which has tended to discourage counter-revolutionary movements).

In view of this situation, and the President's Warm Springs statement of November 24, I am awaiting further report from Welles, who arrives at Habana tomorrow. I will keep you fully informed of developments.

PHILLIPS

837.01/50 : Telegram

*The Secretary of State*⁷² to the Acting Secretary of State

MONTEVIDEO, November 29, 1933—noon.

[Received 3:55 p. m.]

17. An evening paper yesterday and a morning paper today, both of Montevideo, published what purported to be an interview with me in which I was quoted as being in favor of recognition of the present government in Cuba and as having expressed an opinion on other questions pending. I have given no interview whatever since I left the United States and have only given out statements already transmitted to you. Believe interview above referred to was an adaptation of an Associated Press article giving the opinion of a correspondent on attitude which might be taken by our Government on questions discussed.

In this adaptation local newspapers deliberately put Associated Press opinion into quotations as if I had uttered them.

Will be careful to keep you informed of all authorized statements.

HULL

123 W 451/154 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, November 29, 1933—1 p. m.

[Received 1:55 p. m.]

486. Resumed charge.

WELLES

⁷² At Montevideo as Chairman of the American Delegation to the Seventh International Conference of American States.

837.01/52 : Telegram

*The Ambassador in Cuba (Welles) to the Acting Secretary of State*⁷³

HABANA, December 2, 1933—11 a. m.

[Received 1:10 p. m.]

488. The newly arrived Italian Minister called to see me yesterday. He advised me that he was instructed by his Government that it would make no move towards recognition of any Cuban government until such government had received the approval of the United States. He stated that he himself had informed his Government that in his judgment there was no possible basis for recognition of any government such as the present Cuban government. He told me confidentially that his Foreign Office had been in communication with the French and British Foreign Offices concerning the recognition question and that the three Governments were in entire accord to follow the lead of the United States in this matter. He added that the question of recognition by Great Britain had arisen solely due to the initiative of the British Minister here who, as I had surmised, believed that the hardships and injustices being occasioned Jamaican negroes now in Cuba by the existing authorities might be lessened if recognition from Great Britain were forthcoming. The French Minister and the German Minister have personally stated that their Governments would take no action until we had moved in the matter.

The Chilean Minister yesterday informed me that he had consistently advised his own Government against recognition of the present Cuban regime and that he had received no intimation whatever from his Minister for Foreign Affairs that recognition was even under consideration. He repeated to me that Cruchaga was entirely in accord with the policy pursued by the United States here in every way. The Brazilian Minister and the Argentine Chargé d'Affaires have given me most positively to understand that their Governments have shown no indications of changing the policy they have pursued up to the present time of withholding recognition until a representative Cuban government comes into power.

WELLES

837.00/4467 : Telegram

*The Ambassador in Cuba (Welles) to the Acting Secretary of State*⁷⁴

HABANA, December 2, 1933—1 p. m.

[Received 9 p. m.]

489. Since my return I have been engaged in conferences with the leaders of the various political groups. During my absence, after the

⁷³ Transmitted to the Secretary of State at Montevideo in telegram No. 34, December 4, 9 p. m.

⁷⁴ Substance transmitted to the Secretary of State at Montevideo in telegram No. 35, December 4, 10 p. m.

publication of the President's statement, Dr. Grau authorized the Uruguayan Minister to represent him in discussing with the opposition leaders some compromise agreement for the formation of a new government. The Uruguayan Minister yesterday informed me fully of the details of the proposal which he had presented.

The suggestion involved the continuation of Grau in the Presidency until a date still to be determined early in the spring prior to the holding of elections for a constitutional convention upon which date he was to agree to resign and transfer the Provisional Presidency to a substitute selected in a joint session of the Cabinet and a Council of State to be composed of approximately 50 individuals representative of all political and non-political groups of importance in the Republic; the Cabinet to be completely reorganized, Grau to name four of his own partisans, the opposition leaders to name six members, and the remaining two members to be selected by common accord from among impartial and non-political individuals to fill the posts of Interior and War. The Cabinet, by majority vote, would be given complete veto power over all Presidential decrees and control over the selection of any substitutes to fill vacancies in the Cabinet. The Uruguayan Minister informed me that his proposal had been accepted by Grau and was acceptable to the Unión Nacionalista leaders; to Miguel Mariano Gómez and to the leaders of the A.B.C.; that the latter could not commit their party to it until a referendum now in process determined whether the party would agree to the proposal or not. I told the Uruguayan Minister that in my own belief the proposal offered a perfectly satisfactory basis for settlement and that I most heartily approved it.

It is evident, however, that the Uruguayan Minister has been either intentionally or unintentionally deceived as to the acceptability of this proposal by the opposition members and as to the willingness of Grau himself to agree to it. The referendum of the A.B.C. in Habana which is now practically completed appears to show that approximately 80 percent of that party are opposed to any conciliation with the government and from the information that the leaders of the [apparent omission] have as to the sentiment of their partisans in the interior feeling there is even stronger against any compromise. While Colonel Mendieta was originally disposed to accept the agreement and his fellow director in the Unión Nacionalista Party, Dr. Torriente, has been openly working for it, the rank and file of the party have given every indication of their entire unwillingness to follow the advice of their leaders in this regard. Mendieta has consequently changed his own course completely and last night sent me word that under no condition whatever would he accept any settlement on the basis of the retention of Grau in the Presidency and that were he to do so he would

undoubtedly be deposed immediately from his leadership of the party. The O.C.R.R. leaders advise me that they have never agreed even to consider the possibility of such a settlement as this and that they would openly oppose it. Gómez will follow the lead of Mendieta and the leaders of the A.B.C. It is unquestionable that a compromise agreement which will permit Grau to continue in the Presidency is strongly opposed by public sentiment. The feeling of hostility to the government seems to be even stronger than when I left Habana. For the time being there is an attitude of expectancy throughout the country based upon the impression that the Government of the United States will step in and settle the situation to the satisfaction of the Cubans in general. Revolutionary activities are suspended. They will undoubtedly break out again with renewed violence as soon as the public in general is convinced either that the United States will not impose a solution or that a satisfactory peaceful agreement is impossible.

Bomb explosions are frequent in all the large cities. Two nights ago a bomb exploded in Dr. Torriente's house which only through chance failed to kill several persons. Considerable material damage and loss of life has been caused by others. I am reliably informed that a very large number of highly explosive bombs are now in readiness for use by the terrorist organizations of the opposition and that the assassination of the most hated figures of the present regime, notably Carbo and Grau, has already been planned.

Dissension among the leaders of the Army is sharply on the increase. I was reliably informed yesterday from an authoritative source that the Secretary of the Interior Guiteras, in connivance with the leaders of the Cuban Navy and of two of the Habana barracks, intends to create a new mutiny directed against Batista and Grau should any compromise agreement for a concentration government be entered into, their objective being the creation of an extreme Left dictatorship.

WELLES

837.00/4475 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 5, 1933—noon.

[Received 4:22 p. m.]

494. I have had additional conferences Sunday and yesterday with leaders of the political parties and with representatives of Dr. Grau. All of the opposition leaders will themselves accept the form of solution proposed in my 489, December 2, 1 p. m., provided Grau will agree definitely to resign the Presidency not later than April 1st next

and will agree that his substitute be elected at a joint session of the new Cabinet and the Council of State as provided in the compromise agreement proposed. The leaders state that the sentiment within their parties at the present time is almost unanimously opposed to any formula that would permit Grau to retain office but they have given me assurances that they themselves will accept the solution and believe that they can persuade their followers to support their decision. Doctor Grau, however, has reversed the agreement he originally expressed to the plan proposed and is now holding out for his continuation in the Presidency until May 20th and the election of his substitute by the constitutional convention which convention if the members are elected while he is in the Presidency would in all likelihood be composed of individuals selected by himself and it is therefore obvious that when the time came to select his successor the convention would either reelect him or select someone indicated by him. If he maintains his present attitude therefore there is not the remotest hope that the opposition parties will agree to the compromise formula.

General Menocal yesterday issued a manifesto to the Cuban people from Miami rejecting in the name of the revolutionary junta all possibility of the acceptance of the formula proposed by the Uruguayan Minister and attacking principally any solution based on the retention in control of the existing Army.

Most of Menocal's principal followers, however, are opposed to his present insistence on revolution. I saw yesterday Doctor Des Vernine who was Menocal's Secretary of State for 7 years and Dr. Albanes one of Menocal's outstanding supporters in the last Congress. Both have notified Menocal they will not support him in his present attitude until all possibility of a peaceful solution has passed.

There is a very strong feeling among the leaders of all parties that Grau's intention is to prolong the negotiations for conciliation until he has obtained the large quantities of arms and ammunition for the government which have been ordered from Europe and from the United States and that as soon as he considers himself sufficiently prepared to terminate negotiations and declare without any further equivocation his intention to continue the present government as a radical dictatorship.

I am not inclined to believe that he would be supported in any subverted program by Batista. The latter is again actively seeking a change in government. He is apprehensive because of his knowledge of the movement within the Army directed against himself and inspired by Dr. Guiteras, Secretary of the Interior. He likewise fears constant attempts at revolution which he realizes are inevitable and he is particularly afraid of the possibility of intervention by the United States. I have reason to believe from messages he has sent me

during the past 2 days that he will again try to rally support within the portion of the Army sincerely loyal to him in favor of the overthrow of Grau and his replacement by some nationalist acceptable to all elements such as Mendieta or Miguel Mariano Gómez. Mendieta once more has modified his attitude and is now permitting it to be generally known that he will accept the Presidency should all parties again request him to do so.

WELLES

837.01/53a : Telegram

The Acting Secretary of State to the Secretary of State

WASHINGTON, December 5, 1933—2 p. m.

38. The President said today to say to you that in the event other Latin American nations desire to recognize the present Cuban authorities, we should not attempt to block them; that meanwhile, we should stand by the policy set forth in his Warm Springs statement but should be prepared to consider developments in order to determine whether the situation at any future time fulfills the criteria of recognition maintained in that statement.

PHILLIPS

837.00/4480 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 7, 1933—noon.

[Received 8:40 p. m.]

500. For the President. At the urgent request of Dr. Grau I had a long interview with him at midnight last night in a private house. He attempted at some length and in great detail to excuse the utterly unjustifiable and false charges which he and the members of his government had formulated against me on the ground that he has been misinformed. I stated that this was entirely a personal question; that the allegations made had been completely ignored by me; and that the conduct of my official duties would be in no way affected thereby. He spoke with great indignation of the "international conspiracy" which had been formed to prevent recognition of his government and stated that the "boycott" so created presented an insurmountable obstacle. I replied that I was not competent to speak for any government but my own and that in the case of the United States neither any conspiracy existed nor had I before heard any rumors of such a conspiracy; that the policy that we were pursuing as announced by the President of the United States was based upon our desire to take no official

action which would result in injustice to the Cuban people; and that that policy would be continued in the most friendly spirit towards every element in Cuba without prejudice and without favoritism.

He then related *in extenso* what he considered the achievements of his government. He felt that only malicious intrigues could have prevented his government from obtaining the confidence of all. I remarked that every liberal minded person must favor what he claimed was his desire to benefit the conditions of the laboring classes in Cuba but that I could not help but feel that the lack of study and the confiscatory nature of many of the decrees which he had issued affecting legitimate and vested interests in Cuba must necessarily impair confidence. I called his attention specifically to the decree issued yesterday affecting the Cuban Electric Company and to various other decrees of recent date affecting the just rights of many foreign interests other than American in Cuba. After a long harangue on the purity of the ideals of his colleagues, their opposition to Communism and their desire to benefit the Republic he admitted that some of his decrees and notably the Cuban Electric Company decree might not have received sufficient preparation and in the case of the latter assured me that the government would abide by any decision of the Supreme Court modifying the more obnoxious features of that decree.

He then requested me to help him in finding a solution of the political problem. I reminded him that in September I had expressed to him my belief that any provisional government in Cuba could only govern successfully if it adopted a spirit of compromise and sought popular support in order to carry out its obligations. I said that it was increasingly apparent that every day that passed made a concentration government less possible; that the many deaths and imprisonments for which his government had been responsible had aroused popular hostility to a high pitch; that the attacks directed by his government against the legitimate political groups and organizations had inspired the belief that the government intended through force to prevent those organizations from having any fair chance in the coming elections and that the government had determined to control the form of the proposed new constitution without giving the Cuban people any opportunity freely to express their opinion with regard thereto; and that finally the instability of the government and the ill-considered and radical decrees issued had vitally impaired business confidence. I stated that it was well known that revolutionary plans were being formulated on a very large scale and that these plans would almost inevitably be carried out and that in that event, given the disturbed social condition of the country, any fair minded observer could foresee widespread destruction of property and bloodshed on an extensive scale.

I questioned him as to why, when a formula of solution had been proposed through the Uruguayan Minister a week ago which was in a form acceptable to the majority of the opposition parties, he himself had not accepted it after a prior expression of his willingness to agree to it. His reply to this query led me to believe that he had agreed to it at a moment when he feared for his own security and that later, upon being reassured, he had gone back upon his commitments.

I then requested him to advise me what he was actually prepared to do in order to seek a solution of the country's difficulties. He then stated clearly and definitely that if no conciliatory agreement was possible he was willing to resign at any moment; that if an agreement was possible based upon the form suggested by the Uruguayan Minister, namely, his retention in the Presidency for a relatively brief period, virtual control of the government to be vested in a concentration Cabinet and an advisory council composed of representatives of all groups, he would only demand the outward semblance of control as a means of justifying his continuation in office. I thereupon stated that I could assure him that I would do everything possible to urge a joint agreement along the lines proposed but that my participation in such negotiations must necessarily be entirely confidential and informal and that so far as I was concerned the control of these negotiations must be retained by the Uruguayan Minister.

There is a very strong move on foot among the more influential of the present Army officers with the full support of Batista to remove Grau and his government and replace it by a National Government under the Presidency of Mendieta. In order to combine the two tendencies I have suggested to Torriente that he prepare a modification of the Uruguayan Minister's formula so as to include agreement by all that upon the resignation of Grau he be replaced by Mendieta. If this can be accomplished, and Mendieta has assured me that he would accept the proposal, the growing dissidence in the Army will be stopped and revolutionary plans will be checked since Mendieta is the only Presidential candidate who has the complete confidence of the present leaders of the Army and upon whom all political factions have agreed.

I do not wish to appear unduly pessimistic but I am not hopeful of the outcome of the present negotiations. Grau is now under the complete domination of the worst elements in his government and while at times, as last night, he [apparent omission] to grasp the extreme gravity of the situation, I have no confidence in the sincerity of his desire to seek a solution unless this is forced upon him through fear. Between the individuals in the government who are seeking to create a frankly communistic government in Cuba and those who are solely in the gov-

ernment for the profits they can obtain, both of which elements have the upper hand and are working together, Grau remains the figure-head he has been from the beginning. There is strong reason for thinking that his renewed attempt to seek a compromise responds to a plan on the part of his Secretary of the Interior to prolong these negotiations until a favorable moment arises for a new *coup d'état* and the replacement of Grau and the present Cabinet by a dictatorial government composed solely of elements of the extreme Left.

WELLES

837.00/4485 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 8, 1933—11 a. m.

[Received 1:15 p. m.]

501. Personal for the Under Secretary. In view of the possibility which seems more favorable today that a political crisis is in fact approaching, because of the serious issues involved in the questions affecting the interests of the Cuban Electric Company and the Cuban Telephone Company and because of the general belief that labor disturbances on a large scale are impending, I have decided that it is inadvisable for me to make any definite plans at this moment for my return. We can tell more precisely early next week what the developments may be. The political crisis will apparently be settled one way or the other before the 12th. If on that date there seems no hope for immediate settlement and there is no urgent matter regarding the interests of these American companies in conjunction with which my continuance would be useful I shall arrange to leave about the middle of the week and cable you accordingly. If, on the other hand, the political crisis is prolonged it would be better for me to remain until a day or so before Caffery's arrival.

I think it is exceedingly important that nothing whatever be said to the press concerning my plans at this time.

I shall commence my duties in the Department immediately upon my arrival without taking any leave.

WELLES

837.00/4488 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 9, 1933—noon.

[Received 3:05 p. m.]

504. My 500, December 7, noon. The night before last Torriente had a confidential interview with Dr. Grau. He explained at great

length to Grau the political and economic situation of the country and received from him exactly the same expressions and assurances which Grau had given me the preceding night. Grau told Torriente in unequivocal language that he was willing to resign but still insisted that he wished to remain in office until a constitutional convention could be convoked. Torriente explained to him that in the disturbed situation in which the country now was, that was materially impossible since disturbances would not cease until a change of government had taken place and no fair elections under proper guarantees could possibly be held until the parties had a chance to organize and until the active intervention of the Army in every phase of Cuban existence as is now the case can be prevented. Grau appeared to be convinced by the arguments advanced.

The Uruguayan Minister came to see me yesterday afternoon to show me the revised formula he has now prepared to provide for an understanding between all factions. This formula includes in addition to the points already communicated to the Department a new article, the essential portion of which reads as follows:

“Upon the retirement of Dr. Grau San Martín from the Provisional Presidency on blank date Colonel Carlos Mendieta will assume the functions of the Provisional Presidency.”

The remainder of the article in question provides for the manner in which a substitute for Mendieta should be selected in the event of his inability to serve. The Uruguayan Minister stated that he was going to urge upon Grau the abandonment by the latter of his desire to continue in office until a constitutional convention had assembled and likewise urge that the date of his resignation be set for the very near future. He told me that he was going to explain to Grau that in his own opinion no solution of this character would be possible unless it was carried out immediately and included the provisions above mentioned.

Batista sent word to me this morning that he and the officers of the Army were insistent that the agreement be entered into by Grau and that there was a general unanimity of opinion among the leading officers of the present Army in favor of the above formula. Dr. Presno, the newly appointed Director of the University of Habana who represents the opinion of all the professors and the great majority of the student body, asked for an opportunity to see me last night and advised me that not only was the student body extremely anxious for an agreement along the lines proposed but also that in a recent meeting of the members of the former Student Directorate almost all of the students had expressed their intention of going over to the opposition and openly opposing the present government. He stated that he

would see Grau today and urge upon him ratification of the agreement as now formulated.

Grau has requested me to have a further interview with him tonight and I have agreed to meet him at midnight as previously in a private house. In general the prospects seem more hopeful. The press without exception has come out in open support of the suggested agreement which is now a matter of common knowledge. Public opinion has rallied in favor of it and even the soldiers in the streets are speaking enthusiastically of the hoped for change in government.

WELLES

123 W 451/161 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, December 9, 1933—3 p. m.

140. Your 501, December 8, 11 a. m. The President asked me to say that he believes it would be well for you to make your plans to leave on the evening of the 12th or the 13th. Caffery is now at his home in Louisiana and will presumably reach Habana a few days after your departure. We all feel that it would be best for him not to give the appearance of hastening to Habana immediately after you have left.

PHILLIPS

837.00/4489 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 10, 1933—noon.

[Received 2:15 p. m.]

508. In my conference with Dr. Grau last night he told me that he withdrew all the conditions he had previously imposed for the formation of a new government; that he was willing to come to an immediate agreement with the opposition leaders for the constitution of a concentration Cabinet and that he was prepared to retire as President immediately. He said that he would solely insist that the new government obligate itself to carry out the "revolutionary program". Since all factions are in accord on this program I do not anticipate any difficulty on this point.

Grau has summoned the opposition leaders to meet him secretly tonight at 11 o'clock. They will support only Mendieta as his substitute. Should a complete agreement be reached during the night, as now seems possible, Batista will be called in and will be given full guarantees as to his retention of his present position.

WELLES

837.00/4492 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 11, 1933—noon.

[Received 2:05 p. m.]

509. My 508, December 10, noon. The leaders of the Unión Nacionalista, A.B.C. and Marianista Parties met with Grau last night. I am advised that after very ample discussion an agreement in principle was reached both on the program to be carried out by the provisional government and as to the manner in which the provisional government should be formed. An entirely conciliatory spirit existed throughout. A subcommittee of the opposition has been appointed to meet with Grau this afternoon at 5 o'clock. At this meeting, details will be fixed including the exact date upon which Grau will retire from the Presidency. Tonight a full meeting will again be held to determine upon the names of the individuals to be selected for the new concentration government as well as the members to compose the Council of State. Batista is in full accord with the agreement and has given assurance that he will support the new national government.

Should the conferences this afternoon and tonight be successful it is highly probable that the agreement will be completed in final form tomorrow and be made public shortly afterwards. While the public has knowledge of the fact that the negotiations are proceeding favorably the nature of the agreement has as yet been kept confidential.

WELLES

123 W 451/162 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 11, 1933—10 p. m.

[Received December 12—1:18 a. m.]

511. Personal for the Acting Secretary. In view of the unexpected and complete collapse of negotiations this afternoon I shall leave Havana by aeroplane Wednesday,⁷⁵ arriving Washington Friday morning. Leaving Matthews in charge.

WELLES

837.00/4498 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 11, 1933—11 p. m.

[Received December 12—12:53 a. m.]

512. The sub-commission of the opposition parties appointed at last night's meeting in Grau's presence and with his full approval,

⁷⁵ December 13.

and composed of Doctors Torriente, Mendez Peñate and Dorta Duque called at the Palace at 5 o'clock as arranged. It was immediately apparent that Grau's attitude had completely changed. He had been in constant conference with Carbo and Guiteras during the afternoon and it is the impression of the opposition leaders that the change is due to the threat of immediate revolt made by them should Grau agree to a national government. Grau refused listen to any appeal or arguments, decried the necessity of recognition by any foreign governments and declared that the only possible solutions were cooperation with his government by the political parties or else its overthrow through [force?].

The opposition leaders consequently in view of this complete reversal of attitude consider all present possibility of a peaceful solution terminated.

WELLES

837.00/4493 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 11, 1933—midnight.

[Received December 12—1:54 a. m.]

513. The Uruguayan Minister after the breakdown of negotiations this afternoon made a statement to the Associated Press in which he said that I had not followed his advice, should solely have sought the cooperation of the A.B.C. Party, and had organized the meeting of the opposition leaders held last night without his knowledge. Torriente has sent for the Minister to request a published retraction. Should this not be forthcoming I shall tomorrow morning make a brief statement making clear the facts.

As have already informed the Department the Uruguayan Minister came to me to request my cooperation in his efforts at conciliation. I replied that while I could take no action whatever I fully sympathized with his endeavors and should my opinion be requested, would counsel a peaceful adjustment of all disputes through patriotic compromise. My conversations with the party leaders have of course been limited to this. The meeting between Grau and the political leaders last night was arranged for by Grau directly with the latter. In my conversations with Grau himself, when he requested my assistance, I made it thoroughly clear that I could take no part whatever other than that of a friendly observer and that the role of go-between was undertaken not by me but by the Uruguayan Minister.

WELLES

837.00/4500 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, December 12, 1933—11 a. m.

[Received 1:30 p. m.]

514. My 513, December 11, midnight. The Uruguayan Minister late last night went to the office of the Associated Press to state that he had never made any such statements as those transmitted by the Associated Press and quoted in my telegram under reference. He requested that the story be killed. When he was told that this was impossible he requested that a new statement be transmitted in place of the one which he had actually previously made in which all reference to myself was omitted.

In view of the action taken I do not consider any statement by me necessary particularly since none of the statements originally made are carried by the local press for this morning.

WELLES

123 W 451/164 : Telegram

The Chargé in Cuba (Matthews) to the Acting Secretary of State

HABANA, December 13, 1933—3 p. m.

[Received 4:20 p. m.]

515. Ambassador Welles departed by airplane this afternoon.

MATTHEWS

837.00/4521 : Telegram

The Chargé in Cuba (Matthews) to the Acting Secretary of State

HABANA, December 14, 1933—11 a. m.

[Received 2:20 p. m.]

517. At the request of several student leaders, after very careful consideration and in view of the breakdown of conciliation negotiations, I conferred last evening with Batista and three students, namely, Rubén de León, (see Embassy's telegram 395 of October 24) Curtis and Maceo all formerly associated with the Directorate.

León who spoke for the students present emphasized the weakness of Céspedes and his Government, the increasing lack of control (mentioning Occident Sugar Mill troubles during its brief regime) and the growing rivalry thereunder of the "old political groups". He expressed fanatically the determination of the students to continue fighting "for the aims of the revolution, which means not only a change

of leaders but a change of system". He said that the Grau government is "nationalistic" and aims to improve the lot of the Cuban people (in this connection he mentioned the 50 percent labor law) without, however, overturning the "capitalistic system". He attempted to compare these aims to the "new deal" in the United States. Both León and later Batista emphatically denied any sympathy for or tendency toward "communism" and point to the communistic opposition to the present government to which element they laid the continuing nightly bomb explosions. They also emphatically denied that they or the present regime were either anti-American or anti-foreign.

Batista then told his story calmly and at length. He gave as reasons for engineering the September meeting, first, alleged intrigues going on among the Army officers particularly the partisans of Menocal looking toward a replacement of Céspedes; second, the desire of the younger officers to oust their elders in order to obtain immediate advancement and third, the danger of either complete disintegration or establishment of a military dictatorship similar to Machado's. Batista expressed his grave regret at the National Hotel incident and emphasized his efforts to give the officers every opportunity to come to an agreement. He disavowed any political ambitions other than to support a government which would preserve the "ideals of the revolution".

Both Batista and León naturally attempted to minimize the strength of the various opposition sectors asserting that the latter were composed chiefly of "front page photograph" leaders without substantial following but aided by the entire press. This opposition they claimed would rapidly subside once present regime were recognized by our Government. They asserted that the Grau government has been in power now nearly 4 months and has demonstrated its "stability"; that it is carrying on the normal functions of government, laying stress on the opening of normal schools and institutions and the prospective opening of the university in January. That Grau had any ambitions to continue in office after the establishment of a Constitutional Assembly they denied.

When they had finished I limited myself to expressing interest in what they had told me and to reiterating our position with respect to the question of recognition. I emphasized that we had no interest in any particular person or group and that our sole desire as Ambassador Welles had frequently stated was that the Cubans themselves compose their difficulties. I added that Mr. Caffery would be arriving within a few days and that I felt sure that he would be glad to see and talk with them just as he would be equally anxious to meet leaders of the various opposition sectors in order to acquire a thorough knowledge of the Cuban situation.

Batista and the students, particularly León, seemed to be on very friendly terms. Our interview was most cordial throughout. I transmit the foregoing brief factual outline of what was said for what it may be worth. Ambassador Welles will upon his arrival doubtless fill in the necessary background and interpretation.

MATTHEWS

837.00/4533 : Telegram

The Chargé in Cuba (Matthews) to the Acting Secretary of State

HABANA, December 18, 1933—9 a. m.

[Received 10 a. m.]

524. Dr. Grau expressed a desire to meet me yesterday and I accordingly called at the Palace last night.

The press having learned of the visit I stated that I had merely told Dr. Grau that Mr. Caffery would arrive this morning.

MATTHEWS

123 C 11/376 : Telegram

The Personal Representative of the President (Caffery) to the Acting Secretary of State

HABANA, December 18, 1933—2 p. m.

[Received 2 : 30 p. m.]

526. Arrived.

CAFFERY

837.00/4544 : Telegram

The Secretary of State to the Acting Secretary of State

MONTEVIDEO, December 21, 1933—11 a. m.

[Received December 21—10 : 15 a. m.]

78. Havas despatch from Habana to morning paper here says that *Wyoming* with 1,800 men arrived and opinion is that it is to protect Spanish interests under existing treaty. The despatch then adds that it is believed that the Americans are taking precautions in case it should be necessary to comply with the stipulations in the Treaty of Paris ⁷⁶ which obliges the United States to protect the lives and interests of Spanish residents in Cuba. It further adds that the government accuses the Spaniards of favoring American intervention.

Please wire quickly exact facts. I do hope no vessel movements about Cuba will be found necessary before this Conference adjourns.

HULL

⁷⁶ Treaty of peace between the United States and Spain, signed December 10, 1898, *Foreign Relations*, 1898, p. 831.

837.00/4547 : Telegram

The Personal Representative of the President (Caffery) to the Acting Secretary of State

HABANA, December 21, 1933—1 p. m.

[Received 4:17 p. m.]

527. I saw Carlos Hevia (at his suggestion) privately last evening. We went over the whole situation in both its political and economic aspects. As regards the political I said (in effect) "As the situation appears today (I repeated some of the well-known deficiencies of the regime) we cannot recognize your government; you say that you are only a provisional governor with no political affiliations and no political interests and that your only object is to hold honest elections and then get out; but I do not feel that you offer adequate assurances for guaranteeing free elections for the proposed constitutional assembly."

I said also that we had been disturbed at certain seemingly communistic tendencies in the present regime and at the apparent lack of preparation with which important decrees affecting some of our interests had been issued: some of these decrees such as that affecting the electric light rates appeared confiscatory and others such as the Workmen's Compensation Law appeared entirely unworkable. (Hevia readily agreed concerning the latter and indicated that he believed it could be modified into a workable law.)

We discussed the importance of solving the sugar question and the present strenuous campaign here apparently primarily backed by speculators (here and in the United States who had sold short) in favor of an unrestricted crop. Hevia was patently much worried concerning this situation.

He has asked to see me again this evening.

CAFFERY

837.00/4544 : Telegram

The Acting Secretary of State to the Secretary of State, at Montevideo

[WASHINGTON, December 21, 1933—2 p. m.]

110. Your 78, December 21, 11 a. m. The *Richmond* has been anchored in Habana Harbor since the early part of September, during which time none of the enlisted men have been permitted to go ashore. In order to permit the men to have shore leave during the Christmas holidays, arrangements were made early in December for the *Richmond* to proceed to Panama for the holiday period and for the *Wyoming*, which has recently been stationed at Guantanamo, to take the place of the *Richmond* at Habana during the latter's absence. The

replacement is purely a routine matter, determined upon many weeks ago and has no connection whatever with any recent developments in Cuba. Similar replacement of the *Richmond* by the *Wyoming* took place once before for similar reasons.

PHILLIPS

837.00/4550a : Telegram

The Acting Secretary of State to the Personal Representative of the President (Caffery)

WASHINGTON, December 21, 1933—4 p. m.

148. Marquez Sterling requested that he be received as a private citizen of Cuba by President Roosevelt in order to present his respects to the President before returning to Cuba to assume the office of Secretary of State. The President received him informally yesterday afternoon and chatted with him for a few moments on topics in general unrelated to Cuba. The President did say it was a pity that large numbers of American tourists who would like to visit Cuba this winter feel impelled not to do so because of their fear of disorders.

No publicity is being given to this visit.

PHILLIPS

837.00/4558 : Telegram

The Personal Representative of the President (Caffery) to the Acting Secretary of State

HABANA, December 26, 1933—5 p. m.

[Received 6 p. m.]

530. I am endeavoring to explore situation thoroughly and hope to have some definite suggestions to make next week.

CAFFERY

837.00/4564 : Telegram

The Personal Representative of the President (Caffery) to the Acting Secretary of State

HABANA, December 28, 1933—6 p. m.

[Received 8:52 p. m.]

532. Uruguayan Minister tells me he is making another attempt to have his conciliation plan accepted. I told him I wished him every success. He will see me tonight to report developments.

CAFFERY

837.00/4569 : Telegram

The Personal Representative of the President (Caffery) to the Acting Secretary of State

HABANA, December 29, 1933—3 p. m.

[Received 5:35 p. m.]

534. My telegram No. 532, December 28, 6 p. m. The Uruguayan Minister has made no further progress thus far with his plan as far as I can ascertain.

I, of course, have discussed the situation with a large number of people. In some cases I have requested a written memorandum of the opinion expressed to me. I asked one from the supporters of Mendieta which I received yesterday, a copy of which has apparently passed into the hands of Dr. Grau. The government, I am told, is disposed to consider favorably these latest Mendieta suggestions. I am a little skeptical about this.

CAFFERY

PLANS FOR THE ADJUSTMENT OF CUBAN FINANCES

837.51/1436

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 745

HABANA, June 15, 1931.

[Received June 18.]

SIR: I have the honor to refer to my despatch No. 544 of February 3, 1931, the Department's telegram No. 29, February 10, 5 P. M., and my telegram No. 44, February 25, 5 P. M.⁷⁷ in regard to the issue of Treasury notes by the Cuban Government; also to refer to the last paragraph of my memorandum of a conversation with President Machado of May 23, 1931, (page 5 of enclosure No. 1 to my despatch No. 712 of May 29, 1931.).⁷⁸

This morning the daily paper *El Mundo* published a report that the President would sign a message to Congress today recommending the issue of a \$10,000,000 internal loan which would be used in payment of a part of the floating debt. I immediately called on the President and informed him that I had no doubt the report was without foundation, but I wished to point out the adverse effect that this and similar press notices would have on Cuba's credit in the United States, where Cuba's credit standing is of great importance for future operations. The President replied that he had considered sending to Congress a recommendation for the issue of a \$10,000,000 loan. He argued that the former internal loan was almost entirely liquidated; that the special

⁷⁷ None printed.⁷⁸ Not printed.

taxes which had been set aside for the liquidation of the former loan would be available for a new loan; that the Government's creditors were pressing for payment; and that this proposed issue would wipe out last year's budgetary deficit and leave something to spare.

I told the President that, in view of the present public debt, the revenues and expenditures of the Cuban Government, my Government, as I had pointed out to him in the past, did not consider further borrowings justifiable and, further, that should he complicate the Government's financial difficulties with an internal loan, he might make it impossible at the appropriate time to interest the Chase Bank, to whom \$40,000,000 of Cuban Government Bonds were hypothecated, in the development of a financial plan of relief. I recalled to the President that I had consistently advised him that the only way to adjust his financial problem was first to settle his political difficulties. I reiterated that the constitutional reforms should be expeditiously passed and in such a fair manner that the opposition would be unable to condemn the reforms with any justice. Once having passed these reforms, enough confidence might be restored in order to justify an appeal by the Government to the Chase Bank for the development of a financial plan to lessen the burden of the high debt services within the next few years. The President replied that I need say nothing to him about my Government's feelings in regard to the proposed bond issue because he thoroughly agreed with my statement in regard to the folly of attempting to issue internal bonds in view of the necessity of considering the Cuban Government's whole financial program. The President gave orders that the message to Congress, which he had signed before my arrival this morning, should be cancelled and that the Secretary of the Treasury should be informed of this decision.

In regard to the reforms, the President assured me that he had every intention and desire to pass the reforms in a manner that would be above criticism. He stressed the point that he was personally keenly anxious to have this bill passed, and that it would pass within the near future. In the meanwhile, the President will make available to the Manager of the Chase Bank in Cuba, data upon which consideration can be given to some readjustment of Cuba's Public Works debt. (See despatch No. 735 of June 12, 1931.)⁷⁹

The President's project for an internal bond issue, which has at least been cancelled for the moment, was conceived in desperation. A \$10,000,000 internal bond issue would relieve his most pressing creditors, leave a couple of millions to liquidate further budgetary deficits in the first months of the coming fiscal year, and pave the way, it would be hoped, for the extension of further credit to make possible the building up of some more floating debt. However, if this

⁷⁹ Not printed.

internal loan had been issued, the price of the bonds would probably very quickly sink to about twenty-five cents on the dollar. In spite of the President's promises of the past that he will not issue internal obligations without advising the Embassy, I do not feel that this would prevent him from doing so, if he was again placed under pressure.

Therefore, if the Department wishes to be assured that it will not be taken unawares, I suggest that I send the following note to the President:

"In further reference to the conversation that I had the pleasure of having with Your Excellency on Monday, June 15, in view of the present public debt, revenues and expenditures of the Cuban Government, my Government has instructed me to inform Your Excellency that it desires to be notified in advance of any decision to issue Cuban Government obligations, and to be apprised of the pertinent facts upon which it can reach a decision as to whether or not it should interpose objections under Article II of the Permanent Treaty."⁸⁰

Such a note would be a precaution for the future, to which the Department might desire to give consideration.

The Cuban Government, it would seem, can only save itself by wise, constructive political and financial measures. The enactment of unsound financial projects will, in my opinion, not prevent but only postpone a collapse that will have in the end more far reaching and harmful effects. If such financial projects are in violation of Article II of the Permanent Treaty, I recommend that the Treaty be invoked.

Respectfully yours,

HARRY F. GUGGENHEIM

837.51/1436 : Telegram

*The Acting Secretary of State to the Ambassador in Cuba
(Guggenheim)*

WASHINGTON, June 26, 1931—2 p. m.

72. Department authorizes you to present note suggested in your 745, June 15.

CASTLE

837.51/1439 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, June 27, 1931—11 a. m.

[Received 12:36 p. m.]

102. Department's telegram 72, June 26, 2 p. m. Note delivered this morning.

GUGGENHEIM

⁸⁰ Treaty of May 22, 1903, *Foreign Relations*, 1904, p. 243.

837.51/1443

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 773

HABANA, July 9, 1931.

[Received July 13.]

SIR: In reference to the Department's telegram No. 72, June 26, 2 PM, I have the honor to report that in a conference with President Machado on Tuesday, July 7, he apologized for not having made, up to the present time, any formal acknowledgment of my note to him of June 27, 1931. Doctor Ricardo Herrera, Secretary of the Presidency, however, made a tentative reply, a copy and translation of which are enclosed.⁸¹

The President stated to me that he wished to repeat informally that there would be no bond issue. He said that he was appreciative of the continuous study I had been making of Cuban finances, and that he had respect for my judgment and was very happy to accept my personal advice on this subject, which he knew was in the interests of Cuba. However, he felt that perhaps a formal acknowledgment of my note might have to take into consideration the rights of the Cuban Government. He did not think that my Government could object to the issue of an internal loan or that it ought to object every time the Cuban Government "wanted to borrow \$15,000."

I told the President that my Government had a different view of this; that Article II of the Permanent Treaty was specific and that internal obligations were not excluded from this provision of the Treaty; that my Government felt it had an obligation in the matter and, on this account, it fulfilled its duty in sending the note of June 27, which concretely stated my Government's viewpoint. President Machado accepted all this in good part, and the conversation turned to other subjects.

Respectfully yours,

HARRY F. GUGGENHEIM

837.51/1444

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 776

HABANA, July 10, 1931.

[Received July 13.]

SIR: Referring to my despatch No. 773 of July 9, 1931, I have the honor to transmit herewith a copy and translation of a letter addressed to me under date of July 8, 1931, by President Machado in acknowledgment of the communication regarding the future issuance of Cuban Government obligations which I addressed to him on June 27, 1931, pursuant to the Department's telegraphic instruction No. 72 of June 26, 2 p. m.

Respectfully yours,

HARRY F. GUGGENHEIM

⁸¹ Not printed.

[Enclosure—Translation]

*The President of Cuba (Machado) to the American Ambassador
(Guggenheim)*

HABANA, July 8, 1931.

MR. AMBASSADOR: I have the honor to refer to Your Excellency's note dated the 27th of June last, by which you advised me in the name of your Government of the desire to be notified in advance of any decision of the Cuban Government to issue obligations, and also to be advised of the pertinent data upon which it can reach a decision as to whether or not it should interpose objections under Article II of the Permanent Treaty.

In reply, I can inform Your Excellency that my Government has not decided and does not intend for the present to issue obligations such as those to which your Government refers, as a consequence of which there is no need at present to consider the second point mentioned in Your Excellency's note.

I renew [etc.]

GERARDO MACHADO

837.51/1506

Memorandum by the Assistant Secretary of State (White) ⁸²

[WASHINGTON,] April 20, 1932.

The Cuban Ambassador ⁸³ called and left with me a memorandum reading in translation as follows:

"The salaries of Cuban functionaries have been reduced in the last two years almost 60%. The budget has been considerably lowered and is going to be lowered even more to 44,000,000 pesos, more or less.

"The public debt has been paid and the corresponding amortizations have been made. However, owing to the rapid fall of the budget in excess of all the most rigid provisions there have remained certain obligations of the State to be paid, amounting to some 10,000,000 pesos. Those interested are demanding payment and are having a certain influence on public opinion for the suspension of the service of the foreign debt.

"The Cuban Government does not desire to suspend at all the payment of interest and amortization of the public debt because it feels that it should maintain its credit and also because after this year is over it hopes that the sums to pay in the future for this account will be less.

"The Cuban Government, at the same time, desires to satisfy these creditors who do not hold obligations with a fixed due date, but which are equally legitimate, and on this account has considered a credit

⁸² Copy transmitted to the Embassy in Cuba in instruction No. 548, April 30, 1932.

⁸³ Orestes Ferrara.

operation of an internal order with low interest which can satisfy its floating debt. The credit operation will be represented by a bond issue on long terms with $4\frac{1}{2}$ per cent interest as a maximum, guaranteed by the part of the tax for port improvements or by all that tax, which up to the last year served to guarantee and pay the so-called dredging bonds.

"Cuban receipts have improved in the months of March and April and, based on the most pessimistic calculations, it is estimated that they will cover with excess a budget of 44,000,000.

"The due bills of the revenue service are being met by monthly deposits in the hands of the fiscal agent bankers.

"The operation which is now in mind will clean up completely, even in this so chaotic situation, the finances of the Republic; and has been recommended by an economic council composed of the best Cuban talent in financial matters."

The Ambassador explained that the so-called port dredge bonds had been entirely amortized last year but that the taxes which had been allocated for their service are still being collected and are unobligated. These taxes amounted formerly to between \$1,300,000 and \$1,400,000 per annum. Of course they are very much reduced at present but these taxes still bring in more than \$500,000 a year which would be more than enough to pay the interest and some amortization on \$10,000,000 of bonds. The bonds would bear interest at the rate of not more than $4\frac{1}{2}$ per cent a year and the Ambassador hoped that they might bear only 4 per cent. He would like to have \$100,000 amortized every year. He said that President Machado had assured him that the floating debt does not exceed \$10,000,000. Ferrara seemed to feel that there had not been any very accurate check-up on this but he was inclined to feel that this figure was more or less accurate. If this floating indebtedness could be cleared up in this way, that is, by giving the holders of the floating indebtedness bonds, which he said most of them had already signified their readiness to accept, he thought it would clear up the Cuban picture to a very great extent. The Ambassador said that if he could have anything to do with it he could make some very attractive bonds. He would put a lottery feature in the bonds, amortizing say one bond in twenty at double its face value. This would keep the bonds at par in Cuba. The bonds would be in small denominations of \$100 or \$200.

Ferrara is leaving for Cuba on Monday and said that when he gets to Cuba and gets full data on the matter, he will give full information to Mr. Reed⁸⁴ so that he can advise us. He referred to the Platt Amendment in this connection and said that while there was no specific provision in the Platt Amendment requiring the Cuban Government to consult us about such an operation, nevertheless Cuba had done

⁸⁴ Edward L. Reed, First Secretary of the Embassy and Chargé in Cuba.

so in the past and he thought they ought to do so, and he will see that Mr. Reed is fully informed. I told him that that of course was the only frank way to deal with the matter and I always felt that it would be to Cuba's advantage in the long run to deal openly and frankly with us in such matters. I said that when we got the full information we would of course give the matter most careful consideration.

F[RANCIS] W[HITE]

837.51/1508

The Chargé in Cuba (Reed) to the Secretary of State

No. 1152

HABANA, May 5, 1932.

[Received May 9.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 548 of April 30, 1932,⁸⁵ with which was enclosed a copy of a memorandum of a conversation, dated April 20, 1932, between the Cuban Ambassador at Washington and Assistant Secretary White with respect to Cuban financial matters.

Ambassador Ferrara, who returned to Habana April 28, called on me yesterday and, alluding to the subject of his conversation with Mr. White, said that the matter had not yet crystallized and that he was consequently not in a position to discuss it with me in detail. He was proceeding very cautiously as he did not wish to give the appearance of encroaching on the province of the competent officials of the Government, such, for instance, as the Secretary of Finance. I gathered that he would endeavor to keep me informed of developments but that he could not be entirely sure that he would always be in a position to do so. I, of course, impressed upon him the desirability of seeing that the Embassy or the Department is furnished the necessary data to enable the latter to consider the project. He intimated that there would be some delay due to the lack of any exact estimate of Cuba's floating debt. It was his idea that the floating debt should be divided into two parts: i. e. that incurred for public works and that resulting from accumulated deficits under the regular or ordinary budget. He felt that the first part should be liquidated by some arrangement with the bankers who undertook the public works financing and that the proposed issue of treasury notes should be applied only to the payment of debts of the second category.

Dr. Ferrara said he expected to return to Washington about the end of May in order to present his letters of recall. He would in any event come and see me again before his departure.

With regard to the project presented in the Cuban Ambassador's memorandum of April 20, I may say that the proposed issue of treasury

⁸⁵ Instruction not printed.

notes for the purpose indicated has been under active consideration here for some time past. Its most ardent advocates are the employees of the Government, whose salaries are from two to three months in arrears; merchants to whom the latter are heavily indebted, and various creditors, many of them Americans and other foreigners, to whom the Government owes large sums on long standing accounts for supplies and services. The Embassy knows it to be a fact that the diplomatic representative of at least one foreign country has been exerting his influence to induce the Government to resort to this method of liquidating amounts due his compatriots.

Payment of these debts in some form, even though it be in part only, would undoubtedly act as a much needed tonic to business in Cuba. However, it is apparent that the expected benefits would be minimized in proportion to the discount at which the proposed treasury notes would sell when issued. Furthermore, it would not be easy to exaggerate the difficulties that would arise when it comes to determining which accounts are to be liquidated and which are not. Even presuming that the note issue is to be applied exclusively to discharging the deficit incurred in the present fiscal year, a procedure which would scarcely be equitable toward creditors of longer standing, these difficulties would not be entirely eliminated unless, as now seems unlikely, the current deficit proves to be less than \$10,000,000.

These are, however, questions which would appear to be the peculiar concern of the Cuban Government. Consideration of the larger question, whether revenues will be available to pay the interest charges and amortization on this new public debt after defraying the current expenses of the Government and the service of already existing loans, should in my opinion at least be deferred until the intentions of the Cuban Government regarding expenditures for the fiscal year beginning July 1, 1932, are definitely known. The Secretary of Finance has announced in the press that the budget estimates will be submitted to the Senate between May 15 and May 20.

I am enclosing a memorandum prepared for me by the Acting Commercial Attaché⁸⁶ which contains an analysis of the statements appearing in the memorandum which accompanied the Department's instruction and other information which I am sure will be of interest to the Department.

Respectfully yours,

EDWARD L. REED

⁸⁶ Not printed.

837.51/1509 : Telegram

The Chargé in Cuba (Reed) to the Secretary of State

HABANA, May 12, 1932—2 p. m.

[Received 4:30 p. m.]

57. Chase Bank Manager informs me \$20,000,000 public works credit was today extended for additional 60 days.

Decree published yesterday orders payment of \$1,793,000 still due Warren Brothers for road work. Payment to be made at the rate of \$50,000 per month from unobligated ports improvement revenues. This would indicate that proposed issue of \$10,000,000 treasury notes referred to in the Department's instruction No. 548, April 30,⁸⁷ has now been abandoned since no other revenues are available as security.

REED

837.51/1521

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 1328

HABANA, August 25, 1932.

[Received August 29.]

SIR: I have the honor to report on Cuban Government finances, and especially to submit my recommendations for the funding of the floating debt of the Cuban Government. As the Department is aware, the Cuban Government has desired for a long time to rehabilitate its credit by paying off its most pressing creditors. For this purpose, at various times, plans have been prepared quietly to issue paper of some character that might circumvent Article II of the Permanent Treaty. (See my despatches No. 544 of February 3, 1931,^{87a} No. 745 of June 15, 1931, and No. 773 of July 9, 1931.)

The Department has been currently informed of these and other developments in Cuban finances. My personal observations of the present status, based on a continuous study of Cuban Treasury Department statements in so far as they are available and supplemented from other sources, can be summarized as follows:

First: The Cuban Government is in arrears on back salaries to Government employees to the extent of between six and eight million dollars.

Second: In addition, there is a floating indebtedness that has been accumulating over a period of years, of say \$30,000,000. (I hope to have an authoritative statement from the Government on this item in the near future.)

Third: On December 31, 1932, a little over \$8,000,000 will be due for interest and amortization of Public Works indebtedness. From pres-

⁸⁷ See footnote 82, p. 550.^{87a} Not printed.

ent indications about half of this sum will be available from revenue, so that about \$4,000,000 will have to be found in order to obviate a default at the end of this year.

Fourth: The regular budget is still unbalanced and unless the new tax legislation greatly increases revenues, or economic conditions improve, there will be a deficit of from four to five millions this fiscal year.

President Machado's policy, caused largely by fear of political consequences to himself in case of default on Government obligations, has been, and I think still is, trying to avoid such default at all costs. Inasmuch as further formal borrowings have been denied to him, this has been accomplished in the past by increasing taxation, by deferring payments, by the augmentation of revenues through the seigniorage on the coinage of silver, by reduction of Government expenditures, and by wringing short term concessions from the bankers on payments due. Doctor Ferrara recently submitted to me confidentially some financial plans, for which he asked my support. If he can see some hope of success, he informs me that he would assume the portfolio of Secretary of the Treasury as acting Secretary, in addition to his other duties, when the present incumbent, Ruiz Mesa, takes leave of absence, in order to conduct his political campaign for a seat in the House of Representatives early in September.

Ferrara's first proposal is to persuade the Chase Bank to relinquish the \$500,000 monthly payments being made to it from the regular budget since last June (see enclosure to Embassy's despatch No. 1229 of June 28, 1932⁸⁸) in order to apply this money to pay part of the back salaries of Government employees. The second proposal is to issue long-term low-interest-bearing bonds made attractive by a gambling feature, for the funding of the floating debt; and the third is to segregate from this general floating debt the amount due on the Capitol, which totals \$1,300,000 and pay this off from income from the Ports funds, in the same manner as was authorized for the payment of the balance due Warren Brothers, over and above the \$20,000,000 in Treasury Certificates which were issued to them. (See my despatch No. 1163 of May 13, 1932.⁸⁸)

I told Doctor Ferrara that, while I was disposed to be of any possible assistance to Cuba, I saw some difficulties in the plans that he outlined. I took the opportunity to reiterate what the attitude of our Government is in regard to additional borrowings by the Cuban Government at this time, and in particular referred him to my note to the President of June 27, 1931.⁸⁹

In regard to his first proposal, I pointed out that on December 31, 1932, the Cuban Government probably would be several millions short

⁸⁸ Not printed.

⁸⁹ See despatch No. 745, June 15, 1931, from the Ambassador in Cuba, p. 546.

of the needed funds to meet the Public Works payments, that all of their persuasive power would probably be required at that time to get further concessions from the Chase Bank, and that it might, therefore, seem an inopportune time to suggest to the bankers that the agreement just entered into to repay \$500,000 monthly be cancelled.

In regard to his second proposal, I told him that although I did not believe that the Cuban Government's finances justified, under Article II of the Platt Amendment, any increase in its bonded indebtedness, I thought that if the floating indebtedness could be reduced to a reasonable figure, and if the Chase Bank and associates were willing to make certain concessions, we might develop a plan to fund this floating debt eventually and give Cuba's creditors some hope at this time. I have a plan in view which I told Doctor Ferrara I was not ready to discuss with him now. As a preliminary, however, I said I would be glad to have as accurate a statement as possible of the floating debt.

In regard to his third proposal, I told him that it was our view that all creditors should be treated alike. He said that the liquidation of the debt to Warren Brothers and Cuban contractors by use of revenues from the Ports fund was an accomplished fact. I replied that this, in my opinion, was an unfortunate procedure, especially as I understood that this arrangement had been consummated by questionable methods, in which Americans and Cuban officials had jointly participated, and, on account of the American participation, was anything but a source of satisfaction to me. In connection with the Warren Brothers indebtedness, see my despatch No. 657 of April 17, 1931.⁹⁰

The financial plan that I would recommend is the following

(a) That the Cuban budget be balanced for the fiscal year 1932-1933. (With good faith on the part of the Cuban Government, or better, through informal supervision by agents of the bankers, I think this can be accomplished.)

(b) By means of temporary assistance of the Chase Bank and associates, arrangements be made to meet the Public Works payments due December 31.

(c) Redemption of the \$7,500,000 now outstanding of the original \$20,000,000 Public Works Serial Certificates when due on June 30, 1933. (With perhaps a little leniency, in case of necessity, from the Chase Bank, it would seem that these payments could be met from revenues.)

Under these circumstances, on June 30, 1933, with the redemption of the Public Works Serial Certificates, the only Public Works indebtedness that will remain in the hands of the general public will be the 1945—\$40,000,000 5½% Public Works Gold Bond issue. In addition, there will remain the \$20,000,000 Chase Bank Credit secured

⁹⁰ Not printed.

by the remaining \$40,000,000 authorized issue of Special Public Works Gold Bonds and the \$20,000,000 Treasury Gold Notes in the hands of Warren Brothers and Cuban contractors. I would further propose that,

(d) An adequate Claims Commission be appointed to determine accurately the floating debt and make such reductions as might be possible. Perhaps this floating indebtedness could be reduced to, say, \$20,000,000.

(e) Negotiations be entered into with the Chase Bank and associates for the cancellation of the \$40,000,000 issue of Public Works Gold Bonds held as collateral by these bankers for the \$20,000,000 credit and substitution of a new adequately secured \$20,000,000 obligation of the Cuban Government.

(f) Negotiations be entered into with the Warren Brothers and Cuban contractors for the cancellation of the \$20,000,000 issue of Treasury Gold Notes held by them and substitution of a new \$20,000,000 obligation of the Cuban Government.

(g) Such negotiations, if successful, would eventually release \$20,000,000 of authorized indebtedness of the Cuban Government which might be used to fund the Floating Debt.

If the principles of this plan could be carried out, which should be greatly in the interests of the Cuban people, there would be no increase in Cuba's bonded indebtedness and no need for our Government's interposing objection. The present status of the Cuban Government's finances is such that, should the Government desire to increase its indebtedness by formal borrowing, there would seem to be cause for our invocation of the Permanent Treaty. Likewise, the political situation is so uncertain and the animosity to the present government so great that, should our Government fail to invoke the Permanent Treaty, there would be, in my opinion, a serious reaction against the United States. It would be contended that the United States Government was lending its moral support to financial arrangements made by American bankers for the perpetuation of the Machado dictatorship.

Cuban Governments in the past have successfully circumvented Article II of the Permanent Treaty by a general accumulation of floating indebtedness at a time of inadequate revenues. As a result, the \$50,000,000 Morgan Loan of 1923⁹¹ and the \$9,000,000 Morgan Loan of 1927⁹² were necessary, and now a loan of from \$20,000,000 to \$30,000,000 will be required, if the present floating indebtedness of the Cuban Government is to be funded.

Following my return on leave to the United States next week, I shall be glad to discuss this question with the American bankers, should the Department so desire.

Respectfully yours,

HARRY F. GUGGENHEIM

⁹¹ See *Foreign Relations*, 1923, vol. I, pp. 837 ff.

⁹² See *ibid.*, 1927, vol. II, pp. 528 ff.

837.51 Chase National Bank/87

*Memorandum by the Assistant Secretary of State (White)*⁹³

[WASHINGTON,] November 4, 1932.

Mr. Shepard Morgan⁹⁴ telephoned from New York regarding the Cuban situation. He said that of the sum advanced to the Cuban Government last June \$500,000 has been paid and the remaining \$258,000 will be paid the end of November.

The short term bankers' credit falling due on November 7 has been extended from that date until December 31. This is the bankers' \$20,000,000 credit and brings its maturity at the same date as the other maturities.

Regarding the December maturities there will be a deficit of \$4,000,000. The bank has been examining this question very carefully and has come to the conclusion that it is not warranted in doing anything about it. Secretary of State Ferrara had told the bank that only public works revenues on which there are three prior liens would be available as security for any money put up in December by the bank to tide the Government over. What has been worked out accordingly is this:

Cuba will make a partial payment, probably 50 per cent of the maturing certificates. It will pay the interest charges falling due. \$1,250,000 of first lien certificates which will be retired will exhaust all revenues available for such payments until next June. The remaining 50 per cent will have to await the collection of further public works revenues which will be paid off in installments every couple of months thereafter.

In December there will be no public works funds for the public works bonds falling due and for the bankers' short term credit. These sums are \$1,100,000 and \$550,000 respectively, or a total of \$1,650,000. The same situation will exist next June.

The banking group will provide \$1,100,000 for interest on the bonds; the interest on the bank credit will simply be rolled along. The Cuban Government will be asked to earmark the proceeds of the ten cent tax per bag on sugar to pay off this advance. These funds will partially pay for it. At the end of June the same procedure will be followed. This will use up all the sugar tax money through 1934 but after July 1, 1933, the situation will be somewhat improved. By that time the first lien bonds will be nearly paid off. They will actually be paid off in August, 1933, and there will then be something for redemption of the bank credit. Nothing will be available for payment of the money advanced to pay the interest on the bonds or for the other due

⁹³ Copy transmitted to the Ambassador in Cuba in instruction No. 688, November 19, 1932.

⁹⁴ Vice President of the Chase National Bank.

interest on the short term credit until 1934. This will be a technical default but the bank hopes that the default will not extend to other securities. Mr. Morgan said that this depends, first, on the goodwill of the Cubans, and, second, on the Department's not disapproving of the arrangement. He said that technically this bankers' arrangement does not require the Department's approval but he wants to keep the Department informed regarding the matter in advance. The matter can not be put through before two or three days when a letter will be sent to Ferrara to try to put the agreement into effect. If the Department has any observations to make Mr. Morgan would like it to make them, if possible, by noon on Monday, November 7.⁹⁵ I thanked Mr. Morgan for this information.

Ambassador Guggenheim called me up just after Mr. Morgan had rung off and said that he was returning to Cuba on Thursday night. He can come to the Department on Thursday if we will let him know before next Wednesday. He said that he knew of the bankers' proposal regarding Cuba. As first drawn up, he thought there were some objectionable features in the plan but these were eliminated and he now thinks that it presents the least objectionable course of action. Of course it is not ideal but he thinks it is the lesser of other possible evils.

F[RANCIS] W[HITE]

837.51/1533 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, November 29, 1932—5 p. m.

[Received 8:25 p. m.]

122. Buchanan, representative of Standard Oil Company of Cuba, informs me that the Cuban Government has brought pressure to bear on the oil companies in Cuba to advance approximately a million and a half dollars to be repaid from taxes on oil shipments to be delivered over next 6 months. The object of this advance is to augment funds necessary to carry out plans suggested in the exchange of letters between Winthrop Aldrich⁹⁶ and Secretary Averhoff.⁹⁷ Buchanan informs me that Shell Company has agreed to contribute \$200,000, Sinclair Company \$500,000, on the understanding that \$100,000 will be immediately reimbursed in payment of the Cuban Government's exist-

⁹⁵ In response to a renewed request from Mr. Morgan, he was informed on November 8 by Mr. Edwin C. Wilson, Chief of the Division of Latin American Affairs, that Mr. White's view was that he had merely been informed in general terms of what the Chase National Bank had in mind, that he felt the Department did not come into the picture, and that he had, therefore, made no comment (837.51 Chase National Bank/86).

⁹⁶ Vice Chairman of the Governing Board and President, Chase National Bank.

⁹⁷ Octavio Averhoff y Pla, Cuban Secretary of the Treasury.

ing debt to the company. The Standard has been asked to contribute \$1,000,000, \$200,000 of which is to be immediately reimbursed in payment of the Cuban Government's existing debt to the company. Standard Oil is considering loaning up to a maximum of \$750,000 with a \$200,000 immediate reimbursement. Buchanan has asked my personal advice in the premises which I have refused to give him but gave him as much helpful information as possible in regard to the present Cuban financial situation.

We should reach an immediate decision whether we shall encourage, discourage or take no position in regard to this financial problem. If we take no position, in view of our relations under article 2 of the Platt Amendment, we shall tacitly approve of at least one provision in the Chase proposal, namely: paragraph "third", page 3,⁹⁸ that is in violation of the treaty. When I first discussed with Winthrop Aldrich the general plans outlined in my despatch 1328 of August 25, 1932, for an equitable readjustment of Cuban finances, he was in agreement and attempted to develop a plan along these lines. Following the unfortunate developments in the political situation in Cuba⁹⁹ and after the receipt of letters from the A.B.C., he and his associates decided that they would go no further than the plan outlined in his letter to Averhoff mentioned above. This does not relieve the Cuban people of the altogether too heavy burdens of the improvident public works financing. I think this financial plan under consideration, especially with the proposed contributions from the oil companies, will be an extremely unpopular measure and will cause ill will against the United States. The feeling will prevail that to bolster up an unpopular dictatorship American oil companies and banks are loaning money which will immediately be sent out of the country and promptly repaid by additional taxes and a further curtailment of government salaries. Furthermore, in my opinion this plan will not prevent default but merely postpone it. It is true that at the end of December the Cuban Government is faced with its maximum burden of debt repayment. However, in view of constantly diminishing revenues, an unbalanced budget, the large and increasing floating debt, the problem will again

⁹⁸ Paragraph "third" of the Chase proposal reads as follows: "that a banking group consisting of the Chase National Bank of the City of New York, the National City Bank of New York and the Continental Illinois Bank and Trust Company of Chicago, make an advance to the Cuban Government of \$1,650,000 with which the coupons due on December 31, 1932, on the Public Works gold bonds of 1945, and the interest on the bank credit will be paid. This advance is to be made repayable within six months and to be made a first lien on the existing 10 cents a bag sugar production tax. The advance and the granting of the lien to be authorized by act of the Cuban Congress, passed by two-thirds vote. It should be explained in this connection that the Public Works revenues cannot be utilized for the repayment of this advance, as has been suggested, because of the existing liens on these revenues." (837.51 Chase National Bank/88)

⁹⁹ For correspondence regarding political unrest in Cuba, see *Foreign Relations*, 1932, vol. v, pp. 533 ff.; also *ante*, pp. 270 ff.

be acute when next debt payment becomes due in June unless the world economic situation completely changes. If the bankers on their own responsibility are unwilling to carry out some such plan as outlined in my number 1328, August 25, 1932, I recommend that we discourage the present proposals. If no further funds are advanced to the Cuban Government there will be a partial default on public works indebtedness at the end of December. At that time and thereafter all accrued public works revenue should be distributed as legally prescribed to holders of public works obligations. In view of world situation and the poor status of Cuba's credit in spite of its payments to date, I consider that a partial default would have less serious consequences than those that would follow these proposals. Please instruct what position to take with Standard Oil Company and with Cuban Government should they contemplate making a new loan of this character.

GUGGENHEIM

837.51/1533 : Telegram

The Secretary of State to the Ambassador in Cuba (Guggenheim)

WASHINGTON, December 3, 1932—noon.

119. Your telegram No. 122, November 29. It appears that the plan proposed by the Chase Bank in its recent letter to Secretary Averhoff (the Department has not seen a copy of the latter's reply) envisages a default on December 31, 1932, of between 30 and 40 per cent of the amount due on the principal of the Public Works Serial Certificates (unless the proposed advances of the oil companies are expected to reduce this amount). This may or may not be followed by a more serious default on June 30, 1933, depending upon conditions at that time.

On the other hand, if the Department now raises objection to the plan apparently agreed upon between the Cuban Government and the Chase Bank and in which certain other companies are considering cooperating an important default not only on the principal of these certificates but presumably upon interest payments on the Public Works Gold Bonds (in view of the priority of the serial certificates over the latter) will inevitably occur this December. You, yourself, told Mr. White over the phone on November 4 that "some objectionable features in the plan" had been eliminated and that you considered it "the lesser of other possible evils" (see enclosure No. 1 to the Department's instruction No. 688 of November 19¹). Your statement

¹ Instruction No. 688 not printed; for text of enclosure, see memorandum by the Assistant Secretary of State, November 4, 1932, p. 558.

was, of course, made before the possible participation of the other companies had been brought up, but the Department does not perceive how this fact materially alters the situation.

As the Department understands the plan, it involves in effect the assumption by a banking group headed by the Chase Bank of the sum of \$1,650,000 due by the Cuban Government for interest on its Public Works Gold Bonds and on the existing so-called bank credit. It does not appear to involve any increase in Cuba's public debt. The Department, therefore, is at a loss to understand your statement that our "tacit approval" of this feature of the plan is "in violation" of Article II of our Permanent Treaty. (In this connection you will have observed from the enclosures to instruction No. 688 that the Department carefully refrained from expressing any "approval" of the plan.)

The Department feels that to indicate its disapproval of the plan which has been voluntarily worked out between the Chase Bank and the Cuban Government on their responsibility or of participation therein by American oil companies would constitute an unwarranted interference in Cuban affairs. The Department, therefore, desires you if approached by the Cuban Government, the bankers or the other companies, to make it quite clear that all responsibility in the matter rests upon the parties concerned and that the Department desires to take no position in the premises.

STIMSON

837.51/1534 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, December 5, 1932—noon.

[Received 6:20 p. m.]

128. Your 119, December 4 [3], 10 a. m. [noon.] Your reference to my telephone conversation with Mr. White fails to take into consideration my subsequent telephone call to Mr. White, November 10th, when I saw for the first time certain letters of credit Chase Bank to Secretary Averhoff. This second telephone call was expressly made to point out objection to paragraph "Third" page 3, which provided for formal public borrowing of the Cuban Government in excess of its capacity to discharge under present conditions and future prospects and therefore was in conflict with article II of the Permanent Treaty. The participation of American and British oil companies in my opinion greatly strengthened this objection to the financial plan.

I note that the Department does not concur with this view and shall follow the instruction to take no position in the premises.

GUGGENHEIM

837.51/1536

The Ambassador in Cuba (Guggenheim) to the Secretary of State

No. 1451

HABANA, December 19, 1932.

[Received December 23.]

SIR: Referring to my telegram No. 122 of November 29, 5 p. m., I have the honor to transmit herewith a copy and translation of a law² promulgated in the *Official Gazette* of December 17, 1932, giving legislative sanction to a contract signed December 10, 1932, with the Chase National Bank of the City of New York covering a further advance to the Cuban Government of \$1,650,000 in order to facilitate payment by the latter of the service of its Public Works Indebtedness on December 31, 1932. It is presumed that the Bank's New York office has furnished the Department a copy of this contract.

Article III of the Law provides for a tax of one cent per pound on all sugar consumed in Cuba, the proceeds of which, together with those of certain existing taxes, are pledged for the repayment of the sum advanced. The creation of this new tax has attracted much unfavorable criticism and elicited a formal but ineffective protest from the National Association of Sugar Planters (*Colonos*), it being asserted that it is illogical and contrary to the interests of the industry to saddle it with such a heavy tax at a time when Cuba is advocating more favorable tariff treatment of its sugar by the United States.

It is understood that the arrangement with certain oil companies for the advance by them to the Government of additional funds on account of future tax payments has been concluded in substantially the same form as that described in my telegram under reference. This transaction was apparently not considered as requiring legislative sanction. General authorization to effect such arrangements has, however, been given the Treasury Department by an executive decree.³

Respectfully yours,

HARRY F. GUGGENHEIM

837.51/1539 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, January 12, 1933—4 p. m.

[Received 4:50 p. m.]

4. Semi-official newspaper *Heraldo de Cuba* today quotes Secretary of Finance as saying that the President has definitely accepted pro-

² Not printed.³ Decree No. 1744, December 8, 1932, *Gaceta Oficial de la Republica de Cuba*, December 9, 1932, p. 9352.

posals to issue Treasury certificates in payment of salaries in arrears due Government employees. Yesterday I addressed letter to the President recalling to his attention my note sent pursuant to authorization given by Department's telegram No. 72, of June 26, 1931.⁴

GUGGENHEIM

837.51/1540 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, January 16, 1933—11 a. m.

[Received 12:25 p. m.]

6. My telegram No. 4, January 12, 4 p. m. On January 13th message was informally conveyed to the Embassy by Secretary of the Treasury that Cuban Government had no present intention of issuing Treasury certificates and that consideration of the matter would remain in abeyance until budget has been balanced. A similar statement appeared in the newspapers. This morning I received a letter dated January 13th from the President in reply to mine of January 11th, in which he states that his Government has not determined to issue bonds, certificates of indebtedness or other obligations for any purpose nor has it taken any steps in connection therewith.

GUGGENHEIM

837.51/1544a : Telegram

The Secretary of State to the Ambassador in Cuba (Guggenheim)

WASHINGTON, March 14, 1933—noon.

9. Morgan, of the Chase Bank, telephoned this morning that the Bank had reliable information that President Machado was planning to declare a moratorium on the foreign debt, alleging that the banking situation in the United States made it impossible for Cuba to continue foreign debt payments. Morgan points out that there is no relation between the two situations, that the banking moratorium in this country does not affect Cuba's ability to continue foreign debt payments, that arrangements with the Federal Reserve have made it possible for the banks in Habana to receive ample currency, that the American banks have recently assisted Cuba in meeting her foreign debt service, and that such action by Cuba now would be without justification and a blow to her credit.

Please cable whether you have information which would bear out this report.

HULL

⁴ *Ante*, p. 548.

837.51/1545 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 15, 1933—6 p. m.

[Received 9:59 p. m.]

18. Your No. 9, March 14, noon. There has been a widespread campaign of responsible criticism and propaganda against further payments on principal of foreign debt by the Cuban Government following the conclusion of the financial plan consummated by that Government and Chase Bank and oil companies last December. Such criticism I anticipated as indicated in my telegram No. 122, November 29, 5 p. m.; Department's telegram 119, December 3, noon; and my 128, December 5, 5 p. m. [*sic*], 1932.

Although this propaganda may not have the approval of the Government at least it is not being censored. This is particularly significant since the Government is imposing the strictest censorship that I have witnessed in the last 4 years on the publication of any news believed to be in any way inimical to its interest. No indirect information in regard to the Government's proposed debt policy is of any value as to [*sic*] the policy will be determined personally by the President and in my opinion will be based on what he believes will be the effect of this policy on the general policy of the United States toward Cuba.

On receipt of your inquiry I informally and incidentally inquired of Ferrara what the Government was going to do in regard to debt payments, to which he replied that of course the last word was not his but that he would advise giving the United States Government a complete statement of the financial problem of Cuba arising from its foreign debt with the request that the United States Government should use its good offices with the American bankers to develop a plan of relief. President Machado may follow this course but there is always the remote possibility that he may take advantage of the present period of our banking situation and the unknown policy of the new administration toward Cuba to declare a moratorium and to put into effect unsound financial projects either in contravention or circumvention of article II of the Permanent Treaty. In my opinion any effort by our Government to induce the bankers to relieve the financial strain on the Machado administration without a resolution of Cuba's political problem will be generally condemned as United States support of the unpopular Machado administration.

GUGGENHEIM

837.51/1546 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 17, 1933—11 a. m.

[Received 1:48 p. m.]

19. My telegram No. 18, March 15, 6 p. m. Publicity campaign advocating moratorium on foreign debt payments increasing and appears to have derived encouragement from a rumor given prominence in local press that the President of the United States is favorably disposed thereto.

Secretary of Finance is quoted as having told newspaper reporters yesterday that although no decision has been taken in the matter the Government is not deaf to the opinions being expressed by the business and industrial elements in the country.

It may be regarded as significant in this connection that there now appears to be a tightening of opposition in Congress to proposed reduction of next year's budget to \$37,000,000.

GUGGENHEIM

837.51/1547 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 23, 1933—4 p. m.

[Received 5:35 p. m.]

21. Department's 9, March 14, noon. In connection with inquiry concerning possibility of moratorium on foreign debts the Department will be interested to know that President Machado sent a message to Congress yesterday requesting enactment of legislation to establish a partial moratorium on private debts by suspending for 2 years amortization and interest payments on mortgages of railroads, sugar mills and farm lands and limiting to 5 percent per annum the interest to be paid during that period on mortgages covering city properties.

GUGGENHEIM

837.51/1548 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 24, 1933—noon.

[Received 2:10 p. m.]

22. A decree⁵ published in *Official Gazette* of March 15th provides for issuance of deferred payment certificates in amount of about \$2,000,000 to Cuban contracting firm which has a concession for con-

⁵ Dated March 13, 1933.

struction and operation of port works at Cardenas. Certificates to be issued immediately for \$490,000 in payment of work already accomplished and the balance to be issued in installments as work is accepted. Interest is to be at the rate of 6% and certificates to be secured by a second lien on ports improvement taxes.

I have addressed a letter to the President stating I assume certificates will not be issued unless my Government has been apprised of the pertinent facts upon which it can reach a decision as to whether or not it should interpose objections under article II of the Permanent Treaty. Reference my despatch numbers 776 of July 10, 1931,⁶ and 1492 of January 16, 1933.⁷

GUGGENHEIM

837.51/1551 : Telegram

The Ambassador in Cuba (Guggenheim) to the Secretary of State

HABANA, March 28, 1933—11 a. m.

[Received 12:50 p. m.]

26. My telegram No. 21, March 23, 4 p. m. Mortgage moratorium bill passed by the Senate last night and prompt approval by the House of Representatives is expected. Opinion regarding measure is very mixed. Foreign banking interests are naturally very much opposed to it.

The Senate also passed a bill authorizing the President to arrange for a delay in payments of amortization on Government debts both foreign and internal.⁸

GUGGENHEIM

837.51/1561 : Telegram

The Chargé in Cuba (Reed) to the Secretary of State

HABANA, May 4, 1933—5 p. m.

[Received 6:55 p. m.]

37. Embassy's telegram 22, March 24, noon. I have just received a very long note from the Cuban Secretary of State in reply to the letter which Ambassador Guggenheim addressed to the President on March 24, 1933, in regard to proposed issue of deferred payment certificates. This note asserts that no obligation devolves upon the Cuban Government under article II of the Permanent Treaty to give previous notification to the Government of the United States

⁶ *Ante*, p. 549.

⁷ Not printed; but see telegrams Nos. 4 and 6, January 12 and 16, from the Ambassador in Cuba, pp. 563 and 564.

⁸ The law, approved April 3, 1933, was published in the *Gaceta Oficial*, April 4, 1933.

of its decision to assume obligations or submit them to the approval of any authorities other than those required by the Cuban constitution; that in the past it has assumed many obligations of a similar nature without the slightest obligation on the part of the United States; that these certificates and similar certificates the issue of which is apparently in contemplation are not public debts or peremptory obligations and are really in conformity with the treaty since they are designed to avoid claims. There follows a justification of the issue authorized by the decree of March 13 and a review of the Cardenas Port Works Concession and of the legislation pertinent thereto.

Summing up the note states:

"Since my Government is obliged by law to continue certain works which, moreover, are of the greatest utility to a large community, especially in this critical period; since there exists a special fund for this purpose which is affected only temporarily by other obligations, since it is not possible to carry the works to a conclusion as slowly as collections are received, and since my Government must pay a net amount, my Government has believed it within its sovereign faculties to perform an act of good administration by finding, in agreement with the contracting company, a form of deferred payments for the work that has been done and that will be done in the future without contracting any other obligations than that of paying with funds included in the ordinary budget each [year] proceeding from revenues expressly destined for works of this kind.

The Cuban Government is pleased to furnish the foregoing explanation but it desires to affirm that it is not obliged to do so by any treaty or convention and that it does not desire that this shall be considered as a precedent obligating it to similar action in the future, for otherwise not only would Cuba's right as an independent nation be impaired but it would be impossible for her to govern."

Unless otherwise instructed I shall hold this note pending arrival Ambassador Welles.

REED

837.51/1563

The Ambassador in Cuba (Welles) to the Secretary of State

No. 2

HABANA, May 11, 1933.

[Received May 15.]

SIR: Referring to the Embassy's telegram No. 37 of May 4, 5 p. m., I have the honor to transmit herewith a copy and translation of a note which the Cuban Secretary of State addressed to the Chargé d'Affaires ad interim on May 2, 1933,^o in reply to my predecessor's letter of March 24, 1933, to President Machado, in which he expressed the assumption that certain deferred payment certificates, whose issuance was authorized by an executive decree of March 13, 1933,

^o Note not printed.

would not be issued until the Government of the United States had been apprised of the pertinent facts upon which it could reach a decision as to whether or not it should interpose objections under Article II of the Permanent Treaty.

Dr. Ferrara, in this note, furnishes the desired data, but with the specific reservation that, as his Government does not consider that it is obliged to do so by any treaty provision in force between the two governments, its compliance with the Embassy's request in this instance shall not be regarded as constituting a precedent. He also explains at some length his Government's interpretation of its rights and obligations under the Permanent Treaty. His statements in this connection and his insistence upon the Cuban Government's freedom of action in financial transactions of the kind under discussion are respectfully submitted for the Department's careful consideration.

From a practical standpoint I am inclined to concur in the Cuban Government's contention that no infraction of the treaty provision is entailed by the issuance of deferred payment certificates having no definite date of maturity and secured by revenues established by law for the specific purpose for which the expenditure is authorized. I feel, however, that there are aspects of the matter concerning which it would be well to have the opinion of the Department's legal adviser and I shall, therefore, await the receipt of the Department's instructions before making any reply to the note.¹⁰

Respectfully yours,

SUMNER WELLES

837.51/1561

The Secretary of State to the Ambassador in Cuba (Welles)

No. 8

WASHINGTON, May 13, 1933.

The Secretary of State has received telegram No. 37 of May 4, 1933, in relation to the reply made by the Cuban Government to a communication of former Ambassador Guggenheim regarding the proposed issue by that Government of deferred payment certificates in connection with the construction and operation of port works at Cardenas and has observed that the Cuban Government expresses the opinion that the issuance of such certificates would not involve a public debt of Cuba within the meaning of Article II of the Treaty of Relations with the United States concluded May 22, 1903.

Referring to the statement contained in the telegram that the Cuban note would be held pending the arrival of the Ambassador, it may be stated that the Secretary of State assumes that the Ambassador will soon make a report and recommendations concerning the note in question enclosing therewith a translation of such note.

¹⁰ No instructions were issued. With the signature of the treaty of relations, May 29, 1934, between the United States and Cuba (Treaty Series No. 866), the matter was evidently considered closed.

837.51/1566 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 22, 1933—4 p. m.

[Received 10:30 p. m.]

54. The estimated regular budgetary revenues for the fiscal year 1933-34 amount to approximately \$42,000,000. I have been advised by both the President and the Secretary of State that appropriations for the same period will be kept within \$40,000,000.

A sincere effort to balance the budget has been and is being made by the Cuban Government. A large number of employees have been dismissed and salaries have been materially reduced with resultant hardship to a large number of persons. As a measure to relieve the distress thus occasioned, the Government departments are now working on a half-day basis, the official reason for this measure being that governmental employees may find outside part-time employment and thus increase in some small measure their income.

Total salary arrears to governmental personnel now amounts to \$18,961,000. The judiciary has not been paid for 8 months; school teachers have not been paid for a much longer period. Even the highest ranking officials in the executive departments have not been paid for 5 months. No provision in the yearly budget is being made to meet these salary arrears and they are being added to the floating debt with no prospect whatever of adjustment.

The hardship and the discontent occasioned by this policy have been increased by the fact that the seigniorage profits of \$4,000,000 which it is anticipated the Cuban Government will make from the minting of \$6,000,000 silver coins contracted for with the Chase National Bank will be used in their entirety to meet the charges due the New York banks next month.

The strict Government censorship of the local press makes it, of course, impossible for the general reaction to be published but the bitterness of feeling engendered should not be underestimated. The general public believes mistakenly, of course, that the American banks are responsible for the maintenance of President Machado in power and now feels that at a time of unparalleled poverty and distress in Cuba all obligations of the Cuban Government to the American banking interests are being met in full while at the same time the Government is taking no steps whatever to alleviate distress here. The amount payable by the Cuban Government during the coming fiscal year to sinking fund charges on its obligations held in the United States, exclusive of the public works debt, amounts to \$4,344,000. The postponement of the payment of sinking fund charges during

the present crisis and the segregation of the amount involved solely for the purpose of applying such amount to personnel salaries in arrears would be extremely helpful. Any arrangement of this kind should, of course, be predicated solely on the definite commitment by the Cuban Government that such sums would be utilized solely for the purpose of paying off in part salaries in arrears of civilian (not military) personnel.

I beg to urge very strongly that you give this very important question your consideration with the hope that the President and yourself may deem it wise to ascertain whether the New York banking interests, including Messrs. Speyer and Morgan and Company as well as the Chase National and National City Bank groups, would not be willing to enter into a temporary arrangement with the Cuban Government providing for a limited moratorium on the sinking fund charges due during the coming fiscal year and presumably the fiscal year ensuing thereafter. In any discussion with the banking interests regarding this suggestion it will be necessary to bear in mind the fact that President Machado himself will not take the initiative in the matter. He feels that the strongest support which he has in his present position is the support given him by the American banking groups and he has further the conviction, which nothing will shake, that any default of obligations by his administration will make more likely the possibility of American intervention in Cuba. Consequently the proposed arrangement if made would have to come as the result of the determination by the United States Government that the measure is wise and necessary and would have thereafter to be proposed by the American banking groups as a concession due to the economic crisis in Cuba.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

887.51/1567 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 25, 1933—5 p. m.

[Received May 26—9:10 a. m.]

62. My telegram No. 54, and the Department's instruction No. 11.¹¹ President Machado desires the Chase and City Banks to agree that the Cuban Government, after the payments due next month have been made, use the revenues from the public works taxes to pay in-

¹¹ Instruction not printed.

terest on the \$40,000,000 bond issue and upon the \$20,000,000 gold treasury obligations (contractors credit) and then from the \$40,000,000 authorized but unissued public works bonds pay the bankers any amortization of principal of the \$20,000,000 bankers credit. There appears to be valid legal reason why the gold treasury obligations should not receive any payment of interest or amortization ahead of the bankers credit. The President has intimated that if the bankers will not agree to his proposal he may use the authority given him by Congress to declare a moratorium in connection with these credits.

For the reasons expressed in my telegram No. 54 and also because of the fact that the Cuban Government again wishes the bankers to buy up \$1,250,000 of outstanding first lien certificates and hold them until they can be amortized out of public works revenues during the next 2 or 3 months, and that, should the bankers refuse to do this, the Cuban Government will be placed in an exceedingly embarrassing position June 30 when the next payments are due, I believe the President's implied threat to be sheer bluff.

The reason for the President's insistence is due to the fact that of the gold treasury obligations of \$20,000,000 approximately \$1,500,000 have been purchased for speculative purposes by individuals close to the President and approximately \$5,500,000 are held by the Compañía Cubana de Contratistas in which those chiefly interested are Messrs. Augustus Alvarez and Rodolfo Arrelano both of them intimately connected with the President.

For the Department's information, I understand that remainder of these obligations are held as follows: Warren Brothers in portfolio \$9,400,000; First National Bank of Boston \$700,000 in like manner; retirement fund \$1,400,000; insurance companies \$1,500,000.

In any consideration given to this subject by the Department I trust that the views expressed in my telegram No. 54 will be borne in mind. Concession of this character by the bankers should in my judgment be made solely in order to enable the Government to relieve acute distress by paying civilian salaries in arrears and not to make probable a speculative profit for the political adherents of the President. Furthermore, I am particularly desirous that no concessions of any character be made to the Cuban Government until a final decision has been reached by the President regarding a solution of the political problem.

I beg to request that a copy of this telegram be sent to the President for his information.

WELLES

837.51/1568 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, May 30, 1933—10 a. m.

[Received 12:10 p. m.]

67. My telegram[s] Nos. 54 and 62. I would appreciate having at the first possible moment advice as to what action if any the Department has taken in accordance with my suggestions. The Department will realize that the decision involved constitutes a major question of policy and it is difficult, if not impossible, for me to proceed in the conversations I am to have this week until I am informed what action the Department has taken or intends to take in the matter.

WELLES

837.51/1568 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, June 2, 1933—5 p. m.

37. Your telegrams Nos. 54 and 67. The Department has given most careful consideration to your suggestions. It fully appreciates the advantages as set out by you of a moratorium on sinking fund charges during the next fiscal years and the fact that this would relieve tension in Cuba and make for greater stability which would probably in the long run be in the interest of the American bondholder. The Department is likewise not unaware of the dangers inherent in the situation growing out of the alarming salary arrears to Cuban Government personnel. The Department feels, however, and the President shares this view, that it cannot take the initiative with the bankers in suggesting a suspension of amortization payments due on bonds held by the American public.

As a practical matter the Department is convinced that the bankers having legal or moral responsibilities towards the bondholders would not be disposed to suggest any move towards a suspension of sinking fund payments.

PHILLIPS

837.51/1567 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Welles)

WASHINGTON, June 3, 1933—noon.

38. From Caffery.¹² In view of the second last sentence of your telegram No. 62, May 25, 5 p. m., I talked this morning on the telephone

¹² Jefferson Caffery, Assistant Secretary of State.

to representatives of Chase and National City. They both agreed to take no definite steps in this matter until they have conferred again with me. Chase, however, stated he hoped it would not be necessary to hold it up any considerable length of time. National City expressed earnest hope that Machado would not resort to threatened moratorium.

PHILLIPS

837.51/1572 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 9, 1933—11 a. m.

[Received 2:05 p. m.]

76. My telegram No. 62, May 25, 5 p. m. and the Department's telegram No. 38, June 3, 2 p. m. [noon.] The Manager of the Chase Bank advises me that the Government and the bankers have apparently reached a deadlock. The present proposal of the bankers provides that the Government should make commitments to reduce the \$20,000,000 bankers' credit in the same proportion as is provided for with regard to the sinking fund of the \$40,000,000, 1945 gold bonds outstanding which amounts to 5 percent each 6 months or 10 percent yearly. If satisfactory arrangements are concluded for the payments due this month it will leave the coming 2 fiscal years free (except for interest charges) before amortization charges commence and there consequently should be a considerable amount applicable to the bankers' credit during this period even if collections of public works revenues should not increase in amount. The annual reduction of the credit on the same basis as the bonds would imply, therefore, an annual payment of approximately \$1,600,000. Whatever portion of this could not be met from the public works revenues the bankers desire should be included in the general budget.

The Cuban Government has rejected this proposal but has intimated that if the bankers would reduce their request to a minimum payment of the one-half the percentage applied to the sinking fund for the bonds, or 5 percent, this proposal would be acceptable. The Secretary of the Treasury is confident that no part of this annual minimum payment of about \$800,000 would have to be met from general funds although, of course, the Government would be committed to complete the amount required from the general funds in the event that income from public works revenues were insufficient.

The Manager of the Chase Bank informs me that his principals agree to the compromise proposal but that their associates are unwilling to accept it. It would seem to me that the compromise agreement should be acceptable to all concerned.

In view of the public declaration made by the President yesterday as to the policy he has committed himself to pursue¹³ I am very glad to withdraw my request that the bankers refrain temporarily from making any definite commitments in the nature of concessions or accommodations to the Government.

WELLES

837.51/1576 : Telegram

The Ambassador in Cuba (Welles) to the Acting Secretary of State

HABANA, June 14, 1933—3 p. m.

[Received 6:45 p. m.]

83. My 54 and 62 and Department's 37. The Secretary of the Treasury advised me Saturday that the Government would be unable to make any payments this month towards arrears in salaries of civilian employees of the Government. The profits resulting from the six million dollars silver transaction will be utilized in great part in meeting payments due bankers and the balance remaining of about \$1,400,000 will be used to meet salaries of the judiciary, the Congress, and the Army. The Cuban Government desired to obtain a tax advance from the petroleum companies amounting to approximately \$1,000,000 in accordance with the precedent established December 1932, intending to devote this advance to salary arrears. The Chase Bank thereupon interposed and insisted that any advance so collected must be considered as public works revenues and consequently solely applicable to interest and sinking fund charges upon the bankers' obligations.

The suggestion was consequently made that any tax advance received from the petroleum interests be devoted to meeting the June payments due to the bankers thus releasing an equivalent amount from the silver seigniorage profits (which are not pledged) for payment on civilian employees' salary arrears. Both the Cuban Government and the local representative of the Chase Bank see no reason why there should be any objection to this proposal, but have requested that I support the proposal and that the Department so advise the bankers. Doctor Averhoff advises me that a strike will be declared by the governmental employees if nothing is done for them this month.

Since there is no legal obstacle to the procedure above indicated, I can see no reason why the Cuban Government should not take the action outlined or why the American bankers should interpose any objection.

WELLES

¹³ See telegram No. 75, June 8, 2 p. m., from the Ambassador in Cuba, p. 305.

837.51 Chase National Bank/97

The Ambassador in Cuba (Welles) to the Acting Secretary of State

No. 53

HABANA, June 30, 1933.

[Received July 3.]

SIR: I have the honor to submit the following synopsis of the terms of the contract entered into on June 27, 1933, between the Cuban Government and the Chase National Bank of the City of New York for the extension of the \$20,000,000 Bankers' Credit and the coordination of interest and maturity payments on this and other Public Works obligations.

In accordance with the contract, the Cuban Government will continue to deposit with the bank on the first and sixteenth days of each month 90 percent of all Special Public Works revenues collected after June 30, 1933. The funds so deposited will, beginning July 1, 1933, and up to June 30, 1935, be applied to the following obligations in the order named:

A.—To the payment of principal and interest of \$1,250,000 Public Works Serial Certificates due June 30, 1935, which the Chase National Bank has agreed to take off the hands of the public and retain in its portfolio until revenues deposited with the bank are sufficient to permit their retirement.

B.—To interest on the \$40,000,000 issue of Public Works Gold Bonds.

C.—To interest on the \$20,000,000 Bankers' Credit.

D.—To interest on the \$20,000,000 Treasury Gold Obligations (Contractors' Credit).

E.—Any balance to be applied toward amortization of the \$20,000,000 Bankers' Credit.

In addition, the Cuban Government agrees to give the bank an option which will expire on June 30, 1935, to purchase at 90 per cent of their par value a sufficient amount of the \$40,000,000 unissued Public Works Gold Bonds (now in the Treasury as collateral for the Bankers' Credit) to retire the amount of the principal of the bank credit together with accrued interest thereon. This option is subject to the right of the Government to sell on ten days notice to any other party, at a price not less than 90 per cent of their par value, a sufficient amount of these collateral bonds to pay the Bankers' Credit. As a result of this option, \$22,223,000 of these unissued bonds will be signed, executed and placed in custody with the National City Bank of New York at once. If by July 1, 1935, the bank should not have exercised its option or the Government should not have made use of the right to sell these \$22,223,000 Public Works Bonds, they will be cancelled. The remaining \$17,777,000 of the \$40,000,000 unissued Public Works Bonds will be cancelled at once.

After June 30, 1935, and until the remaining obligations have been fully paid, the Public Works revenues deposited with the Chase National Bank will be applied in the following order:

A.—To interest and sinking fund payments of the \$40,000,000 Public Works Gold Bonds.

B.—Interest on the \$20,000,000 Bankers' Credit.

C.—Interest on the \$20,000,000 Treasury Obligations.

D.—The balance to be applied toward amortizing the \$20,000,000 Bankers' Credit.

In order that beginning July 1, 1935, at least \$1,000,000 of the Bankers' Credit may be retired each year, up to that amount will be appropriated for this purpose in the Regular Budget if Special Public Works revenues are inadequate.

As a result of this contract the \$20,000,000 Bankers' Credit is automatically extended to a date not later than 1945, while the Gold Treasury Obligations which were issued to mature on June 30, 1935, will be extended or exchanged for new obligations to mature in 1950. The Government will eventually bring out refunding bonds which will carry the 1950 maturity date and it appears under the terms of the contract that payment of the five semi-annual interest coupons due June 30, 1933, will be made contingent on holders of these Treasury Obligations presenting them for exchange.

The contract further provides that in case the Chase Bank exercises the aforementioned option to purchase a sufficient amount of the Public Works Bonds, now deposited as collateral for the \$20,000,000 Bankers' Credit, to retire this Credit, the Government will include in its general budget, beginning with the date on which the option is exercised, the sum of \$1,100,000 to cover interest payments on the \$20,000,000 Treasury Obligations provided the proceeds of the Public Works revenues are not sufficient for the payment of this interest.

This contract, which it is understood, will not become binding on the bank or the Government until ratified by a two-third vote of Congress¹⁴ and until 100 per cent of the Treasury Obligations have been presented for exchange, appears to eliminate definitely any question as to the priority of the Bankers' Credit over the Treasury Obligations. While apparently not altogether satisfactory to holders of the Treasury Obligations, the contract nevertheless serves to clarify the situation. It removes any possibility of the bank foreclosing on the \$20,000,000 Bankers' Credit, which is past due and demandable, and fixes interest and maturity dates on all Public Works Obligations in a way that does not appear to be too onerous on the Government.

Respectfully yours,

SUMNER WELLES

¹⁴ Law of July 5, 1933, approving the contract, was published in the *Gaceta Oficial*, July 6, 1933.

837.00/3685 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 20, 1933—2 p. m.

[Received 7 p. m.]

175. After consulting with President Céspedes and with the Secretary of the Treasury, and after receiving the benefit of the opinion of many of the bankers and prominent business men in Habana, both Cuban and American, I desire to submit the following views to the Department:

(1) It is indispensable that measures be taken by the present Cuban Government and be taken immediately for the restoration of Cuban economic prosperity. That the Cuban Treasury is in most serious straits cannot be doubted, although I have not as yet been able to receive any official statement. Government employees are in the greatest distress, since salaries have not been paid over a period of many months with the exception of the month of July just past. All industry is practically at a standstill, the situation as regards the sugar industry being, of course, fully known to the Department. Poverty and destitution exist throughout the Republic. Under such conditions no government can stand, and particularly not a government which has come into power under existing conditions, when almost every Cuban will expect it to perform miracles without a moment's delay and make everyone happy and prosperous by decree. I wish to emphasize my conviction that if steps are not taken immediately to make the Cuban people confident that their distress will in some measure be relieved in the not distant future, a condition of chaos will unquestionably ensue which will inevitably give rise to such conditions as to make stable and constitutional government in Cuba impossible.

(2) I cannot see any alternative to the declaration by the Cuban Government of a moratorium on its foreign debt. Such a moratorium might involve solely sinking fund charges, or both sinking fund and interest charges, and could be announced as being for a fixed and limited period during which period steps, in my opinion, should be taken looking towards a conversion of the foreign debt.

(3) The floating debt of the Republic, amounting to between forty-five and fifty millions of dollars, of which from ten to fifteen millions of dollars comprise unpaid back salaries, should be submitted immediately to a claims commission for the purpose of verifying these unpaid internal obligations of the Government. It is unquestionable that the nominal amount of the floating debt can be very materially reduced after an investigation by an honest, impartial commission.

(4) The immediate need of the Government, without which I do not believe it can long remain in power, is for a loan of [*sic*] suffi-

cient at least to meet the payment of back salaries. The injection of this amount of currency into Cuba might be sufficient to tide things over until other measures, which should be taken for economic improvement, become effective.

(5) President Céspedes has requested me to suggest to my Government that it "sell" to the Cuban Government American Treasury bonds for the amount required, payment for these bonds to be made by Cuba in yearly installments but title thereto to be given to the Cuban Government immediately upon entering into the necessary agreement. The bonds, however, not to be delivered to the Cuban Government but to one or more of the American banks operating in Cuba which bank or banks would act as trustees or fiscal agents. The banks in turn would discount the securities with the Federal Reserve Bank for American currency to be delivered to the Cuban Government. The bonds in question would be paid for at a specified annual rate the interest being self-liquidating, being paid by the coupons on the bonds. Such a "sale" could only be guaranteed by the good faith of the Cuban Government and its formal agreement to include in its budget the necessary appropriations for repayment. I have informed President Céspedes that I would transmit his suggestion at once to my Government but that I personally was highly doubtful whether the Executive possessed authorization to undertake such action without the consent of the American Congress, and reminded him that the Congress presumably would not be in session again for some 5 months.

(6) It has likewise been suggested by sources other than the Cuban Government that the Reconstruction Finance Corporation might lend the sum required to American banks interested in Cuba on frozen American assets in the United States and that these banks in turn might advance the amount determined upon to the Cuban Government on such terms and conditions as might be agreed upon.

(7) So far as I can judge, the only alternative to the foregoing plans would be the flotation of a new bond issue by the Cuban Government or the obtaining of a credit by the Cuban Government from American bankers. On account of the political instability now existing it would seem to me obvious that neither one of these two latter alternatives could be considered practicable.

(8) Some minor measures affording immediate relief could be taken :

(a) At the end of June, three American oil companies advanced to the Cuban Government the sum of \$1,335,000 against duties and taxes on future importations. This arrangement deprives the present Government of substantial revenues on petroleum products for the coming months. An arrangement could be made with the oil companies by which the amounts due them could be liquidated by partial deductions from duties payable on incoming shipments over a future specified period so that the new Government could get immediate revenue from this source.

(b) Six million dollars of new Cuban silver currency has been authorized by the Machado Government, of which, up to August 11th, \$2,240,000 had been received, and of which amount still to be received, not more than \$600,000 could be expected this month unless it is possible to expedite operations at the Philadelphia Mint which is charged with the minting of the silver. In view of the national emergency existing in Cuba, it would be highly beneficial to have a special order issued by the Treasury Department so that the remaining silver could be received at the earliest possible moment.

(9) I feel it would be a source of encouragement to the Cuban people, and a source of moral support to the Government of President Céspedes, if a highly competent technical commission of experts could be sent immediately to Habana to advise with the members of the present administration as to the steps which should be taken. In my judgment, this commission should be comprised of practical men, preferably connected with the United States Treasury Department or bankers not affiliated with those banks directly interested in Cuba.

In an interview which I shall have with President Céspedes this afternoon I shall request his opinion in the matter and should he accede to my recommendations I shall telephone the Department accordingly tomorrow morning.

(10) The immediate conclusion of a new commercial treaty with Cuba would be highly beneficial in its moral effect, although necessarily practical benefits cannot be derived from such treaty until after ratification by the United States Senate next winter.

(11) The basic question for the restoration of national prosperity of Cuba is the arrangements which will be made covering the amount of Cuban sugar to be admitted to the American market, the price at which such sugar will be sold, and the terms upon which such sugar will be admitted into the United States. It is unnecessary for me to repeat that I understand fully the domestic difficulties attendant upon giving Cuba generous treatment at the present time, but it will be evident to the Department that if favorable and generous treatment is not given Cuba in this respect all other measures above indicated must be considered solely as temporary stop-gaps.

WELLES

837.51/1580 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 21, 1933—11 a. m.

[Received 12:45 p. m.]

176. In an interview with the President yesterday evening Dr. Céspedes stated to me that he anticipated the better part of this week

would elapse before he or his Secretary of the Treasury had been afforded a definite and detailed understanding of the financial situation of the Government. He advised me that as soon as he had ascertained the necessary facts he would go over them with me and with Dr. Martínez Saenz and would then request that my Government undertake the discussion of measures of helpful cooperation with the Cuban Government through this Embassy.

He stated that he felt it was very desirable that a commission of practical American financial experts be sent to Cuba both for the assistance they could give the Cuban Republic and for the moral effect it would have upon the Cuban people. He stated, however, and I fully agree with his opinion, that it would be desirable that such commission be officially attached to the American Embassy and be not sent to undertake discussions directly with the Cuban Government. If the latter course were adopted the opinion would presumably prevail that the Government of the United States was undertaking an idea of financial intervention in the affairs of the Cuban Government but if the commission were sent here to be attached to and advise the American Embassy such misapprehension would be avoided.

WELLES

837.51/1584 : Telegram

The Ambassador in Cuba (Welles) to the Secretary of State

HABANA, August 23, 1933—5 p. m.

[Received 8:20 p. m.]

182. In conversation with President Céspedes this morning the latter indicated his very strong desire that American financial experts be sent as quickly as possible to Habana. He again requests that these experts be sent as financial advisers to the Embassy in order that the discussion of helpful measures may be undertaken officially between this Embassy and officials of the Cuban Government. He fears that if a commission be sent to deal directly with the Cuban Government it would be impossible to avoid the interpretation of direct financial intervention by the United States in Cuban governmental affairs. It is undeniable that the radical elements in Cuba would at once attack the Government if the appearance of financial intervention were permitted and I have no doubt that such attacks would have immediate repercussion in the rest of Latin America.

I beg to request advice from the Department as soon as may be possible as to its decision in this matter and if experts are to be sent

how soon they may be expected here.¹⁵ In my judgment their stay need not necessarily extend beyond a period of a week or 10 days and if the United States bears the expense which would necessarily be relatively small a very helpful effect of a generous gesture would be created.

WELLES

837.00/3685

The Secretary of State to the Ambassador in Cuba (Welles)

No. 147

WASHINGTON, August 31, 1933.

The Secretary of State transmits herewith, for the information of the Ambassador, copies of a memorandum dated August 26, 1933, from the Acting Secretary of the Treasury to Mr. Caffery, and of a memorandum of the same date from an officer in the Treasury Department to Mr. Acheson,¹⁶ both with regard to the Ambassador's telegram No. 175 of August 20, 1933.

[Enclosure] ¹⁷

The Under Secretary of the Treasury (Acheson) to the Assistant Secretary of State (Caffery)

[WASHINGTON,] August 26, 1933.

This will supplement my memorandum of August 21 ¹⁸ in regard to Ambassador Welles' cable #175, August 20.

A further study of the proposal made by the Cuban Government and referred to by Ambassador Welles in paragraph five of this cable convinces the Treasury that it is wholly without authority to enter into the arrangement suggested. Not only has the Treasury no authority to issue obligations and part with title thereto upon a contract to pay for such obligations on the installment plan, but it appears to the Treasury that the provisions of Article I, Section 9, Clause 7 of the Constitution, as well as Section 11 of Title 41 of the United States Code and Section 529 of Title 31 of the United States Code are express prohibitions against the type of arrangement proposed by the Cuban Government. It is, therefore, the view of the Treasury that it is not practicable to pursue this further.

¹⁵ On August 31, 1933, A. A. Berle, Jr., special counsel for the Reconstruction Finance Corporation, John G. Laylin, special assistant to the Under Secretary of the Treasury, and James H. Edwards were requested to proceed at once to Habana in order to make certain studies in connection with Cuban economic and financial matters and to report to Ambassador Welles upon arrival.

¹⁶ Latter not printed.

¹⁷ Filed separately under 837.51/1582½.

¹⁸ Not printed.

It is also the view of the Treasury that there is no authority in the legislation relating to the Reconstruction Finance Corporation which would enable that corporation to lend money to the Cuban Government. The Treasury is also advised that the American banks interested in Cuba could not be induced to enter into the arrangement suggested in paragraph six of Ambassador Welles' cable.

Should the Cuban Government desire to acquire silver from American interests for the purpose of issuing additional silver coinage, it might be possible under the law to obtain help from the Reconstruction Finance Corporation in financing such a purchase. However, it would be necessary to accomplish this to have the Cuban Government able to furnish adequate security. It appears to the Treasury upon the basis of such information as it has, that practically all revenues and other assets of the Cuban Government are involved in one way or another in pledges already made to secure loans and it would, therefore, seem that in order to furnish adequate security as suggested above, it would be desirable, and probably necessary, that the Cuban Government secure the acquiescence of its principal creditors. It is probably also necessary under the law that the American interests which might sell the silver participate in the furnishing of security.

The Treasury has not sufficient information to make any useful suggestions regarding other methods which might be employed by the Cuban Government to finance itself.

The Philadelphia Mint has already been instructed to complete the coinage of the silver pieces for Cuba with the greatest possible expedition. It is expected the pieces will be completed within a month.

DEAN ACHESON

837.51/1612½

*Preliminary Report on Cuban Finances Prepared by American
Financial Experts, September 5, 1933*

The following embodies our estimate of the financial possibilities now easily expected in the Republic of Cuba, together with our recommended action.

1. The present (current) revenues of the Republic are estimated at the rate of \$48,000,000 for the current fiscal year, divided into \$40,000,000 of regular or ordinary revenue and \$8,000,000 of revenue from the special public works tax.

This represents a decrease of roughly two-fifths of the ten-year average of regular or ordinary revenues as shown in the following table:

<i>Budget Year</i>	<i>Regular or Ordinary Revenues</i>	<i>Public Works Revenues</i>	<i>Total</i>
1923-24	\$91,460,720		\$91,460,720
1924-25	93,559,300		93,559,300
1925-26	89,109,979	\$13,627,906	102,737,885
1926-27	82,111,688	16,366,552	98,478,240
1927-28	83,732,858	17,147,925	100,880,783
1928-29	80,959,941	18,501,817	99,461,758
1929-30	77,157,087	18,121,289	95,278,376
1930-31	59,580,764	15,307,008	74,887,772
1931-32	46,976,552	10,756,485	57,733,037
1932-33	43,652,881	9,470,431*	53,123,312
Ten-Year Average	74,830,177		86,760,118

It may be pointed out that the charges hereinafter discussed in this memorandum could be handled did the national revenue approximate the ten-year average of the figures given above, or even the lowest year thereof, prior to 1932-33. They can not, however, be handled so long as the revenue remains as it now is.

It is our estimate that tax rates can not be profitably increased nor are other sources immediately practicable. Tax rates have reached if not passed the point of diminishing returns. It is believed that the yield of the taxes could be increased depending on popular support of the government, upon orderly handling and imposition of these taxes, upon general confidence in the system, and most of all in case of any increase of economic activity within the Island. We can not, however, count upon substantial increases within any presently measurable period.

2. It is our belief that the objective of any program must be the following (Arrangement in order of apparent necessity) :

a) To release revenues sufficient for the orderly functioning of the government.

We do not believe that the ordinary budget now in force can be decreased; on the contrary, government salaries should be partially restored. They have been cut below the danger point now.

b) To pay off accrued back salaries of government employees as soon as possible.

This is necessary for the stability of the government. It would have the advantage of giving some slight impetus to economic activity within the Island. Politically it appears essential in any event.

c) To pay, so far as possible, the public debt

- (1) As to interest
- (2) As to principal.

* Includes \$1,350,000 advance made in June, 1933, by these oil companies against taxes and duties on future imports of petroleum products. [Footnote in the original.]

d) To pay, if and when audited, and so far as possible, in reasonable installments if need be, the floating debt (other than accrued back salaries).

The floating debt must be audited before it can be paid, and in any event such audit must necessarily take some months at best. The problem of this part of the floating debt is, therefore, not immediate.

3. The following plan is worked out on certain assumptions based upon the information now available to us:

If regular and Public Works revenues at the current rate be allocated in order of apparent necessity, it will appear that:

a) These revenues will provide for government functioning, estimated to cost approximately \$34,000,000, plus a reasonable amount, say \$3,000,000, for necessary increases in salary, or \$37,000,000 in all.†

b) These revenues will further permit application of approximately \$7,000,000 a year toward liquidating accrued back salaries.

The Cuban Treasury estimates \$14,000,000 in unpaid back salaries accrued during the twelve-month period ended June 30, 1933. Salaries for July 1933 and August 1933 have been paid. Salaries for September 1933 have not yet accrued.

Note: The plan suggests also a method by which by the use of silver and seigniorage the liability for accrued back salaries may be paid within six months through a special use of \$5,600,000 of this \$7,000,000 and liquidated within two years.

c) These revenues will not suffice, after taking care of the foregoing, to pay in full amortization and interest on the funded debt.

Note: A schedule of the funded debt is attached hereto, marked Schedule A.¹⁹

d) Nor do these revenues permit any payment towards the floating debt (other than accrued back salaries mentioned above).

We are very clear that no money can be reasonably expected from outside sources, except that the Reconstruction Finance Corporation might through various channels make available an amount not exceeding \$15,000,000 to the Republic. This, however, is not a solution. At best it could merely replace other debts with a debt directly or indirectly due to the Reconstruction Finance Corporation, entailing an additional service charge, and still further tying up the already insufficient revenues of the country. The major problems would still remain, that is, a debt structure whose service can not be handled on present revenues; and within a relatively short time a similar fiscal problem would again face the Island, with an added liability.

† The August 1933 salary roll was \$1,818,789 including \$459,920 salaries of the Army and Navy but not including the legislative branch. [Footnote in the original.]

¹⁹ Not printed.

THE SUGGESTED PLAN

PART I

We suggest that the United States Government interpose no objection if the following plan be adopted; it being understood that all the provisions form essential and integral parts of the plan:

1. The Republic of Cuba might by appropriate decree declare the principle that the regular budgetary and Special Public Works Fund revenues must be allocated to the following objectives in order, the order being arrived at by determining the relative importance of the several functions to the public welfare:

a) To defray expense, stated to be \$37,000,000 annually, necessary for orderly functioning of the government.

b) To payments on account of accrued back salaries of government employes, sufficient to liquidate these salaries within two years at the rate of not more than \$7,000,000 per year.

c) To pay first, the interest and second, the amortization on the public debt.

d) To make payments on account of the floating debt other than salaries, after audit of this debt and in such installments as may be found reasonable.

e) To apply the remainder, if any, towards additional governmental activities of the Republic.

To the extent that the public revenues in any year shall be insufficient to take care of the public debt service, there is declared, *pro tanto*, the conditional suspension of such service, and allocation of revenues thereto as hereinafter provided.

2. The Government would accordingly undertake in such decree

a) That all regular and public works revenues up to \$37,000,000 a year be devoted to current government functions.

b) That all of the balance of such revenues up to \$14,000,000 be devoted to payment of back salaries at the rate of not more than \$7,000,000 a year.

c) That all of the balance of such revenues be devoted pro rata to the matured interest of the public debt and thereafter to the accrued sinking fund charges of such debt.

In all such allocation, interest shall take priority over any payment of amortization so that no payments shall be made for amortization until all matured interest payments shall have been made; and all payments of interest shall be credited to the earliest maturing unpaid installments of interest. All payments by way of amortization shall be credited generally to the principal of the respective loan.

Interest will not be allowed on past-due installments of interest irrespective of the terms of any loan agreement.

d) That all of the balance of such revenues be devoted to the payment pro rata of the floating debt certified by the commission hereinafter referred to.

e) That the balance be devoted to additional governmental activities.

3. As guarantee of the faithful performance of the foregoing conditions and terms of suspension and allocation, the decree would constitute a fiscal commission composed of:

a) A chairman who shall be the Secretary of Hacienda or an official of the Secretaría of Hacienda designated by him

b) A member who shall be designated by the trustees (or fiscal agents in cases where there are no trustees) of the respective Cuban loans. If, within thirty days after the publication of the decree, the trustees (or fiscal agents) shall not have named such a member, then the Cuban Government shall designate a member.

c) A member who shall be an outstanding banking official of Cuban nationality, designated by the Government, and not holding government office.

It would be the duty of this commission each month to audit and to determine the amount of revenue received by the Republic of Cuba, and the amount thereof allocable to back salaries and to each loan.

A separate study would have to be made to determine whether the decree should provide for priorities of the various loans as amongst themselves, and if so what the priorities should be, and to certify the same to the government and to the trustees (or fiscal agents) of the respective loans.

4. The Cuban Government in such decree would undertake monthly to make allocations in accordance with the certificate of the Fiscal Commission.

PART II

In order further to expedite the payment of back salaries we suggest that the following plan also be adopted:

We estimate that on the basis of current revenues \$5,800,000 will be available during the remainder of the fiscal year 1933-34 toward payment of back salaries. With this there could be purchased in monthly installments sufficient silver to coin the \$14,000,000 necessary to pay the salary arrears for the twelve months ending June 30, 1933. The decree would provide that the silver, when coined, would be used only for payment of back salaries. The decree should provide that such amount of the \$7,000,000 a year as was not required to purchase silver sufficient to coin \$14,000,000, should be deposited with an agent designated by the fiscal commission, and employed for the purchase of the coined silver in circulation, which should be melted under the direction of such agent and the proceeds of the sale employed in further purchases of silver coins in circulation. No change would be made in the legal tender value of silver coin.

It will be noted that Part II of this plan dealing with the purchase and coinage of silver is separable from the Part I of the plan contemplating a suspension and allocation of the debt service. In our judgment it would be possible to adopt the second part of the plan without the first, thereby creating enough silver money for a brief period of time to handle demands for back salaries, and to maintain the service

of the foreign debts, and the functioning of the government at present levels. But to purchase enough silver to pay five months of back salaries it would be necessary to secure a loan of about \$4,000,000 presumably running from the Reconstruction Finance Corporation to the seller, or more likely the exporter of the silver. This assumes that the service on the \$20,000,000 loans in the hands of the banks, and on the \$20,000,000 Contractors' Credit, could be extended for one year, thus releasing \$2,200,000.

As a weak piliative [*palliative?*] this plan might be adopted without the plan for a general default (Part I), but it should be adopted with the recognition that it can not do more than secure at the most six months time within which to develop other measures. These measures would have as an added difficulty the servicing of the \$4,000,000 loan. Further, the second part of the plan, while valuable as an adjunct to a more drastic plan, would not, by itself, command any particular popular support in Cuba, nor contribute decisively towards the stabilization of an incoming government. It is conceded that this conclusion as to the second part of the plan is largely a matter of opinion, but this would be our best judgment on the facts now in hand.

RECOMMENDATION

We should recommend the adoption of the first part of the plan and suggest the second part of the plan as furnishing the best method of clearing the Republic of its present difficulties. The adoption of the second part without the first might well incur criticism by Cubans to the effect that we had added to the debt of Cuba solely to protect obligations held by Americans.

We are not unmindful of the dangers of default, or of inflation.

We make these recommendations to meet an obvious emergency, and we make them only on the condition that in each case the suggested safeguards are established. To summarize, these are, in the case of silver coinage, its repurchase within two years, together with a definite limitation on its amount; and as to default, the allocation of surplus income sufficient to permit resumption of the debt service in case the revenue of the Island returns to what was previously considered normal levels.

ADOLF A. BERLE, JR.
JOHN G. LAYLIN
J. H. EDWARDS
A. F. NUFER²⁰

²⁰ Albert F. Nufer, Commercial Attaché in Cuba.

DOMINICAN REPUBLIC

EXECUTION OF THE EMERGENCY LAW OF OCTOBER 1931 AND FURTHER SUSPENSION OF AMORTIZATION PAYMENTS ON THE EXTERNAL DEBT OF THE DOMINICAN REPUBLIC¹

839.51/3696

The Minister in the Dominican Republic (Schoenfeld) to the Secretary of State

No. 250

SANTO DOMINGO, February 20, 1932.

[Received March 1.]

SIR: I have the honor to refer to recent reports regarding the difficulties encountered by Mr. W. E. Dunn, Financial Adviser to the Dominican Government, in carrying out his plans for consolidation of the budget, and to my despatches regarding the instructions received by Mr. Dunn from President Trujillo to proceed with the preparation of a comprehensive internal revenue plan. I beg leave especially to refer to my despatch No. 245 of February 18 last,² reporting a conversation with the Minister of Foreign Affairs³ regarding the general position of the Dominican Government, in respect of its fiscal policy.

I now enclose a memorandum of a conversation I had with the President of the Republic and memoranda of conversations with Mr. Dunn and with the Minister of Foreign Affairs,⁴ all of which took place yesterday. I enclose also memoranda by Mr. Dunn² of conversations which he had early yesterday afternoon with the Minister of Foreign Affairs and in the later afternoon with the President of the Republic.

It will be seen from my memoranda that in talking with the President I made a special effort to insure the resumption of direct personal contact between Mr. Dunn and the President, which had been interrupted since February 2nd. But the Department will observe that these conversations covered a wider range of subject matter than the mere resumption of personal contact between the Financial Adviser and the President, however indispensable that may be. My talks with

¹ For previous correspondence, see *Foreign Relations*, 1931, vol. II, pp. 110 ff. For texts of laws No. 205 and 206, October 23 and 22, 1931, see *Gaceta Oficial* No. 4404, October 24, 1931.

² Not printed.

³ Max Henriquez Ureña.

⁴ None printed.

the President and the Minister of Foreign Affairs, since the date of my despatch No. 245, have been designed to impress on them the unwise tendencies recently noticeable in the Dominican Government's fiscal policy and the effect which might be produced upon this Government's whole position unless those tendencies were checked.

Mr. Dunn informs me today that he had a four-hour talk with the President this forenoon, in the course of which a number of matters was settled that had not been fully discussed in his long talk with General Trujillo yesterday, including a definite understanding that far-reaching fiscal legislation of the kind which has lately caused much uneasiness will not be encouraged, the approval by the President of the internal budget of the Office of the Special Agent for the Emergency (see my despatch No. 220 of February 10⁶) and in general an understanding as to the plans of the Financial Adviser and the cooperation of the President for the rehabilitation of this Government's fiscal structure.

As a result of Mr. Dunn's conversation with the President yesterday, the President drew up and authorized for publication a statement which appears in today's press and is substantially to the following effect: "The Financial Expert in the service of the Government is finishing his preliminary technical study regarding the national and municipal revenue system adapted to this country. This study, which will be presented to the Government, has been going on for nine months and will soon be finished. It may be stated that certain taxes now paid by the people with some reluctance will be eliminated or reduced."

The crisis in financial policy to which the enclosed memoranda refer and which culminated yesterday, is, without doubt, the most serious of its kind since last October when the so-called emergency legislation went into force. For the past few weeks there has been a distinct tendency on the part of the President and his advisers to grasp at ill-considered and hastily conceived plans calculated to raise increased direct revenue. Some of these plans actually came to public attention and caused correspondingly disastrous results; among them were a proposed capital export tax, a proposed inheritance tax, the immigration and residence tax on certain aliens actually enacted. Others were authoritatively rumored and included a proposed issue of \$500,000 metallic secondary currency, a proposed sales tax, a proposed income tax and others. The Financial Adviser believed that none of these measures, however intrinsically good or bad, fitted into any pre-established fiscal plan which must be laid down, at least in a fairly definite form, in contemplation of the eventual end of the Emergency Plan. Under these circumstances the Financial Adviser was frankly

⁶ Not printed.

alarmed and the fact that, for any reason, he had lost contact with the President was, in my opinion, a danger of great importance from the standpoint of this Legation and of the policy to be followed by the Department in respect of the Emergency Plan.

Consequently, I felt that the time had come for taking a definite position in support of the Financial Adviser's claim not to be left isolated from immediate and regular contact with the President. I trust that the Department will approve the means I used to accomplish this result. . . .

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3720a

*The Secretary of State to the Minister in the Dominican Republic
(Schoenfeld)*

No. 43

WASHINGTON, April 9, 1932.

SIR: The Department has been greatly impressed by the number of instances which you have recently reported, and which have been confirmed to some extent from other sources, which represent important departures on the part of the Dominican Government from the plan for meeting the economic emergency which was proposed by the Dominican Government in its note dated October 20, 1931,⁷ and given effect in related legislation. The Department has noted also a recent tendency on the part of the Dominican Government to make or consider financial commitments whose effect would be to increase the public debt of the Republic, without requesting the approval of this Government in accordance with Article III of the Convention.⁸ In connection with this apparent trend in financial matters, the Department has noted also your reports concerning certain difficulties which have arisen in the relationship between the Dominican Government and its Financial Adviser.

To assist you in dealing with these questions, the Department has set forth in the enclosed memorandum its views concerning the status of the Financial Adviser and what it deems essential in carrying out the Emergency Plan. It is felt that the expression of the Department's views in this memorandum will serve as a general guide in your handling of these matters but the Department desires to leave entirely to your discretion the time, manner and scope of any discussions which you may find it desirable to enter into with the Dominican Government or the Financial Adviser. It is, in fact, even possible that the situation may appear to be showing such an improving tend-

⁷ *Foreign Relations*, 1931, vol. II, p. 124.

⁸ Signed December 27, 1924, *ibid.*, 1924, vol. I, p. 662.

ency that you may feel it desirable to defer any action at this time. But the Department feels that a firm insistence at an early stage to prevent substantial deviation from the spirit of the Emergency Plan may prevent a much more serious situation later. A recapitulation has been made of various instances which appear to present important departures from the provisions of the emergency legislation or the general spirit of the promises which were made by the Dominican Government in its note of October 20, 1931, but you are in a position to have a better perspective on these matters than the Department and to judge more accurately their relative importance.

The Department has felt it desirable to set forth clearly its position in regard to the relationship between the Dominican Government and its Financial Adviser. It believes that you may find it necessary to clear up this matter in an informal and friendly conversation with President Trujillo or the Financial Adviser or both should the situation continue unsatisfactory. The Department feels, of course, that there is a distinct value in the Dominican Government's having available the services of a Financial Adviser of the experience and technical proficiency of Mr. Dunn and hopes that you may be able to correct any misconceptions which may exist concerning the status of the Financial Adviser without unduly discouraging Mr. Dunn or President Trujillo.

Should you feel that it would be useful, the Department will be glad to take up with the Dominican Minister in Washington any of the various questions discussed above after receiving your considered opinion thereon.

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

[Enclosure—Memorandum]

FEBRUARY 26, 1932.

There are two questions which now claim the Department's consideration, first, the relations between the Financial Adviser and the Dominican Government, second the failure of the Dominican Government to live up to the terms and spirit of the Emergency Plan in certain important respects. The Department views these as two separate questions, its position thereon being as follows:

1. After the failure of the Dominican Financial Mission to negotiate a loan in the United States,⁹ the Dominican Government requested this Government to lend the services of Mr. Sidney de la Rue, the Financial Adviser to Haiti, to assist the representatives of the Dominican Government in the negotiation of a loan. The Department replied that it could not meet this request as Mr. de la Rue was not

⁹ See *Foreign Relations*, 1931, vol. II, pp. 84 ff.

available because of his employment by the Haitian Government, but that it would, however, be willing to find another Financial Adviser for President Trujillo, should that be his desire. Mr. William E. Dunn, who from his long previous experience in connection with Latin American financial matters, appeared to have the proper qualifications, was suggested as a suitable person for that position. The Dominican Government expressed its desire to appoint Mr. Dunn and he was first employed for a temporary period, his services, however, being subsequently extended, as Special Agent for the Emergency Plan in addition to his other duties as Financial Adviser. The Department was glad to be of assistance to the Dominican Government by suggesting Mr. Dunn as a suitable officer for the position of Financial Adviser and it feels that the employment of Mr. Dunn by the Dominican Government is a constructive and useful step in assisting that Government to carry out the provisions of the Emergency Plan and in general to put its financial house in order. The Department also feels that Mr. Dunn has made numerous sound and desirable recommendations looking to a more scientific budget and more efficient methods of taxation and other desirable financial reforms. While it does not take the position that the Dominican Government is necessarily bound to follow all such recommendations and while Mr. Dunn is in no sense an official of or connected with the American Government, this Government is, however, interested and must insist that there shall not be such deviations from sound financial practices that the result will not be within the spirit of the Emergency Plan.

This Government has not up to the present insisted on a rigid compliance with every detail of the Emergency Plan, realizing that some flexibility may be necessary and desirable and that in starting to put the plan into operation certain difficulties may necessitate a departure from the literal terms of the governing legislation. It is felt, however, that this Government because of the serious responsibility involved in taking no action up to this time in spite of the definite breach of certain provisions of the Convention, a breach by which funds for absolutely vital administrative functions were made available to the Dominican Government, is entitled to watch closely all developments in order to be able at all times to see to the proper functioning of the Emergency Plan or, in the event of any default thereof, to insist that the control of the customs houses be returned to the Receiver General of Customs. In availing itself of the sympathetic attitude of this Government and the sacrifice which has of necessity been made by the bondholders, the Dominican Government has a very solemn responsibility to comply faithfully with the spirit of the Emergency Plan and any squandering or improper diversion of the moneys which represent the sinking fund due the bondholders is, of course, absolutely indefensible.

In its note of October 20, 1931, in which the Dominican Government set forth in some detail the desperate nature of its economic situation, it agreed to expend the emergency fund created from the diversion of the sinking fund in the manner most beneficial to the entire country, namely, first for the payment of current salaries and any balance to the partial payment of back salaries and the most urgent part of the floating debt. The note stated further that "ample safeguards have been provided for the careful expenditure [not only] of the emergency fund but also of the ordinary government revenues."

The Department has noted with great concern an apparently growing tendency on the part of the Dominican Government to initiate certain measures departing in important respects from the Emergency Plan, measures which would not appear to be consistent with the "careful expenditure of the emergency fund and the ordinary government revenues". It has noted also a tendency to consider making important commitments which would have the effect of substantially increasing the public debt without the previous agreement of this Government as provided for in Article III of the Convention. According to the information available to the Department, the principal measures or policies which appear to be contrary to the Emergency Plan or in violation of the Convention, may be recapitulated as follows:

1. Violation of priority of payments.

- (a) Arrears of salaries paid to the army.
 - (b) Payments of political importance, such as the expenditure for the acquisition of an old cargo boat, etc.
 - (c) Payment for Spanish arms and munitions.

2. Diversion of fund, estimated at \$250,000, resulting from the ten percent reduction in salaries. The method of spending this sum does not appear to be clear.

3. Disposal of the excess due amortization account.

4. The specialization of new revenues. The apparent tendency to specialize revenues as in the case of the aqueduct revenues in contravention of Article 8 of the Emergency Law.

5. Increase in the public debt.

- (a) The negotiation for a credit of \$100,000 and obtaining of \$50,000 without the approval of this Government. It appears that the \$50,000 was spent for a type of military equipment some part of which at least can in no way be justified by a government which has asked for the diversion of funds owed to bondholders in order to assure the carrying on of necessary governmental functions.

- (b) The apparent willingness of the Dominican Government to consider commitments for public works which would add substantial burdens to the public debt, for example, the proposed \$3,000,000 harbor improvements discussed with the Clark Dredg-

ing Company which would apparently, even under the most optimistic estimate, leave a balance unpaid from current revenues of \$1,000,000.

In citing the examples given above, the Department does not take the position that certain of the expenditures, although not in accordance with the priority schedule established in the Emergency Plan and its accompanying legislation, were necessarily unjustified. It may have been quite imperative, for example, to pay the arrears of salary due the army, for the proper maintenance of order. There may have been sound reasons of which the Department is not aware also for certain of the other payments. In this connection, the Department has been pleased to note that President Trujillo has now approved the issuance of a monthly report on a suitable form giving a detailed and business-like statement of the movement of the Emergency Fund. This action on the part of the President would seem to be an earnest of his intention to preclude any extensive or flagrant violation of the legal schedule established for the priority of payment.

In summary it may be stated, therefore, that the Department, without taking a narrow view as to technical violations of the Emergency Plan, feels that it is vital that this plan shall be faithfully and loyally carried out. This it conceives to be the careful expenditure of the emergency fund for the general purposes and in the manner contemplated in the Emergency Plan as well as the utilization of the utmost care in the expenditure of the ordinary government revenues. The Department feels that the Dominican Government should avoid the specialization of any new revenues which may be created and that in due course a start should be made toward paying to the amortization account any excess which may be available under the conditions specified in Article 6 (*d*) of the Emergency Law.

Of even more importance than the points discussed above is the question of any increase in the public debt. The Department appreciates the urgent necessity for certain public works and fully understands the desire of the Dominican Government to accomplish as rapidly as possible such projects as the repaving of the streets of Santo Domingo and reconditioning the water system of that city, the resurfacing of trunk highways, the repair of bridges and buildings damaged by the hurricane¹⁰ and works of a similar nature. For this reason the Department has felt that within certain reasonable limits the Dominican Government would be justified in undertaking public works of the character of those mentioned above where the payment for such work would be made currently from current revenues. The Department feels that the recent contract which the Dominican Government has entered into for public works, involving as it does the

¹⁰ See *Foreign Relations*, 1930, vol. II, pp. 727 ff.

imposition of new taxes of various types, represents a very great effort and that any further important financial commitments which may be considered must be fully discussed with this Government where an increase in debt is contemplated or where the Emergency Plan is substantially affected.

839.51/3723

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 352

SANTO DOMINGO, April 19, 1932.

[Received April 25.]

SIR: I have the honor to acknowledge receipt of the Department's strictly confidential instruction No. 43 of April 9, 1932, (without file number) and of its enclosure, being a memorandum dated February 26, 1932, setting forth the views of the Department concerning the status of the Financial Adviser to the Dominican Government and the so-called Emergency Plan in the Dominican Republic.

The Department will have observed from my despatches since the date of the memorandum enclosed with the Department's instruction under acknowledgment that many of the matters which gave the Department concern at the date of the memorandum in question have shown substantial improvement.

Of the points mentioned in the memorandum, that pertaining to the use by the Dominican Government of the 10% reduction in Government salaries under law No. 229¹¹ as amended by law No. 296¹² may soon require special attention. I understand from the Financial Adviser to the Dominican Government that the proceeds from the 10% salary reduction have been used for the payment of legitimate bills against the Dominican Government. The amount, of course, has been insufficient to take care of the obligations in question but, according to Mr. Dunn, such funds as have been available from this source have been applied to the payment of debt. This does not necessarily mean that all political favoritism in meeting such accounts has been eliminated, but the floating debt has at least been reduced by the relatively small amounts which it has been possible to pay from the proceeds of the 10% salary reduction. As of interest in this connection, I enclose copy of a memorandum by Mr. Dunn¹³ regarding the progress of the work of determining the claims making up the floating debt.

¹¹ Law No. 229, November 12, 1931, *Gaceta Oficial* No. 4412, November 18, 1931.

¹² Law No. 296, February 23, 1932, *Gaceta Oficial* No. 4442, February 27, 1932.

¹³ Not printed.

It would be helpful to me to receive an expression of the Department's views regarding the bearing of Article 3 of the Convention of December 27, 1924 upon an eventual funding of the floating debt of the Dominican Government, also taking into account, of course, the Emergency Plan. It would be desirable, if possible, to have an expression on this question in the light of the fact that a further step towards the issuance of Certificates to holders of recognized claims making up the floating debt should, if possible, be planned in the relatively near future. It will be remembered that the Financial Adviser expects to proceed to the United States at the end of May or the beginning of June next, to complete his report on the Dominican tax system. If provision is to be made in the 1933 budget for service of a funded internal debt, I should be enabled before Mr. Dunn's departure for that purpose to express myself authoritatively on the point. My own belief is that Article 3 of the Convention should not be interpreted in such a way as to preclude funding of the floating debt, which would not thereby be increased, but rather the opposite. It may also be possible when urging the inclusion in the next budget of an appropriation for service of such funded internal debt, to secure the inclusion of the proceeds from the 10% salary reduction in the consolidated budget, where it properly belongs.

If, as indicated in the last paragraph of the Department's instruction under acknowledgment, the Department should decide to discuss with the Dominican Minister at Washington any general aspect of the financial position of the Dominican Government, it is respectfully suggested that one of the questions which it might be useful so to discuss would be that of the floating debt, including some reference to the unwisdom of having segregated the 10% salary reduction under law No. 229 outside the consolidated budget. I should doubt the value of making an isolated point of this matter in any discussion with the Dominican Minister at Washington, but should the Department mention it to Señor Despradel, such mention would probably have some repercussion here if, in the same discussion, the Department should deem it appropriate to comment favorably on the progress that has been made by the Dominican Government in such matters as the consolidation of the budget, the effort of the President and the Minister of Finance¹⁴ to insure compliance with the budget in the matter of expenditures and to prevent the increase of the floating debt, the recently announced policy of the Dominican Government to promulgate no further tax laws and its plans thoroughly to overhaul the Internal Revenue system, all in contemplation of the inevitable end of the Emergency Plan. In my opinion, an expression on the part of the Department along these lines would serve to encourage

¹⁴ Santiago Michelena.

President Trujillo to forge ahead without deviation in his program of financial re-habilitation. It would tend, incidentally, to strengthen the position of the Minister of Finance. . . .

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3723

The Assistant Secretary of State (Bundy) to the Minister in the Dominican Republic (Schoenfeld)

WASHINGTON, June 1, 1932.

DEAR SCHOENFELD: We have studied the question which you raised in your despatch No. 352 of April 19, in regard to the possible funding of the floating debt. While we are inclined to agree that funding the floating debt, were it possible, would be helpful in easing credit and restoring confidence in the Government, we do not see how a formal funding operation can take place without squarely raising the issue involved in Article III of the Convention. The situation appears to be as follows:

The floating debt is a part of the public debt of the Dominican Republic. It is immaterial that this debt is not funded or in some liquid form. It no longer represents current accounts balanced by current revenues but is now a cumulated liability of the Government, estimated at over \$3,000,000. This represents an obligation which must be carried over from one fiscal period to another until it can be liquidated. It is clearly a portion of the public debt. The next question which must be determined is the bearing of Article III of the Convention on the increase in the Dominican public debt which is represented by this floating indebtedness.

Under normal conditions liabilities contracted by the Dominican Government for the payment of current supplies or services, which would ordinarily be liquidated in thirty or sixty days and which, in any event, would not be carried over as a deficit from one fiscal year to the next, should not be considered an increase of the public debt within the meaning of Article III of the Convention. Under such conditions these liabilities would not represent a claim against future revenue or a form of debt readily susceptible of funding. Furthermore, this Government could not undertake to enter into such close supervision of Dominican finances, as would be involved in keeping control over such month to month expenditures, nor would it be desirable to attempt such supervision even were it found possible. It is not believed, therefore, that the provisions of the Convention were designed to apply to such current indebtedness.

On the other hand, an attempt to fund the large floating debt which has been carried over from year to year represents quite a different problem. It would appear to be a matter of fact that an increase took place in the public debt as soon as the Dominican Government was unable to settle outstanding bills from revenues available during the yearly accounting period. Nevertheless, unless this debt be funded it can be assumed, in theory at least, that the increase is of a temporary nature due to the exigencies of a situation beyond the control of the Dominican Government; that the Dominican Government proposes to liquidate this non-interest bearing debt as soon as it can and therefore does not have the intention of making a net increase in its public debt within the meaning of Article III of the Convention. The moment an attempt is made to fund this debt by the issuance of internal bonds, or other instruments of this kind, the Dominican Government takes a formal step to incorporate a \$3,000,000 debt in its public debt structure and by this action obligates itself to ask the approval of the United States to this step under Article III of the Convention. The fact that this new debt would be for the purpose of consolidating the floating debt would not appear to alter the obligation; otherwise, the treaty provision in question might largely be set at naught through the creation of a large amount of floating indebtedness followed by its funding.

We feel, therefore, that for the Dominican Government to raise the issue of funding the floating debt might be very embarrassing to both Governments. In view of the fact that the Dominican Government is now diverting funds which are due for the sinking fund requirements of the Convention bonds, there would be great difficulty in consenting to an increase in the public debt. To scold the Dominican Government for its shortcomings would be a futile line of action not helpful to the bondholders, not conducive to preserving good relations between the two Governments or to maintaining our prestige with the Dominicans. My feeling is that the less we have to do with this question of the floating debt the better.

As Dunn will soon be in Washington we will, of course, go into this question with him at some length and I feel hopeful that we can discover some solution which will be constructive, while still avoiding the troublesome features which I have pointed out above.

The Dominican situation, all things considered, seems to be working along satisfactorily and we would like to be helpful and not do anything to destroy President Trujillo's morale or the present spirit which he is showing to cooperate in financial matters. In the light of the various points which I am now bringing to your attention, I would appreciate having your further views and suggestions on this general problem.

We have been waiting for a suitable occasion to discuss with Despradel the various points which you mentioned in your despatch No. 352 but as Despradel has now sailed for Santo Domingo we have not had an opportunity to do so.

Very cordially yours,

HARVEY H. BUNDY

839.51/3759

The Minister in the Dominican Republic (Schoenfeld) to the Assistant Secretary of State (Bundy)

SANTO DOMINGO, June 7, 1932.

[Received June 13.]

DEAR BUNDY: I have read carefully your letter of June 1, regarding the floating debt question. I think I understand the main point thereof that the funding of the floating debt must be considered an increase of the public debt within the meaning of Article 3 of the Convention and should not be approved by us in present circumstances. I sympathize, too, with your feeling that the less we have to do with this question the better.

There seem to me, however, to be some general considerations that may be pertinent. The first of them is that the Dominican Government debt, whether "public" or plain, was increased. We did nothing about it when the accumulation of this debt began. To that extent the Convention was set at naught since the security underlying the foreign bonds was in fact correspondingly decreased. Further, Dominican legislation exists namely, laws 205, 206, and 229, at least, defining priorities affecting the payment of the floating debt or contemplating the funding thereof. We have not assumed responsibility for any of this legislation, but it would seem that we can not disclaim a very active interest in it, having failed at the beginning to insist upon the budget being balanced to prevent the accumulation of debt. It is possible to say that we are not concerned with any phase of the Dominican Government's finances except in relation to the recognized foreign debt. Nevertheless, certain financial operations of the Dominican Government, including the Emergency Law, have been carried out in disregard of the Convention and outside the scope of its provisions. If we entertain the hope, as I think we do, that the system represented by the Convention will be restored as soon as possible, then, it seems to me, we are under some obligation to use any authority or influence we have to bring about a workman-like and complete financial program here to facilitate that restoration. An important part of any such program would seem to be an adequate arrangement for handling the floating debt. I should not consider the issue in-

volved in Article 3 of the Convention one that we need hesitate to face squarely.

The Emergency Law does seem to me to be a more real obstacle in the way of the proposed funding for the reason that the next budget, if it includes service on a funded internal debt, would probably have to be built upon a diversion of money from sinking fund on the foreign debt to the new service. The history of the Emergency Law, as shown in official declarations of the Dominican Government at that time and in the language of the Law, involved direct references to the need of additional funds for maintaining current functions of Government. The Dominican Government's appropriation of this money to its current use was sought to be justified by these references. I am at a loss to know how to reconcile these facts with any provision for service on the floating debt if funded but I doubt whether Article 3 of the Convention is as serious an obstacle as these facts are.

There are two more points. I do not see how the Dominican Government could long prevent rank political and personal favoritism in settling claims if those claims continued to be thought of merely as outstanding bills to be settled from revenue available during the yearly accounting period. If these bills were left indefinitely in this form, creditors would indulge in the unseemly collection scramble . . . which causes demoralization out of all proportion to the amounts involved. Then, keeping the floating debt in this vague form induces extravagance on the part of the Government. Having to make no systematic budgetary provision for the settlement of such bills, the Government is apt to go on as if they did not exist and to think that it is doing a great job if it succeeds in preventing further piling up of floating debt. If, for instance, the Dominican Government ends this year without a deficit this will be considered—and it will be—a great triumph for the financial policy of President Trujillo. I fear it would be asking too much of human nature . . . to expect the Government to consider outstanding bills for prior fiscal years an obligation hardly less sacred than current expenses and, consequently, to tighten the national belt still more to pay such bills, while provision for meeting these charges is left indefinitely outside the budget. Similar reasoning may seem to apply to suspension of amortization on the foreign debt, but there is a great fact, in relation to this debt, that there exist a Convention, a Receivership, Fiscal Agents, Bondholders and the United States Government, whereas the holders of the floating debt are merely an inchoate group, including American individuals and firms.

A possible lead towards a constructive solution to meet your point may be found in the 10% salary reduction under Law No. 229 which remains, thus far, outside the budget. The amount it yields is not

great in relation to the floating debt. But the law does establish certain priorities among the categories of floating debt. If the 10% were included in the budget, where it ought to be, the priorities might be reshuffled and provision made for segregating the money for payment of recognized claims accordingly, stipulating in the finance law that similar budgetary provision is to be made annually until the floating debt is paid off. The 10% should be in the budget, chiefly, in order to make it easier to follow the application of the funds to the payment of floating debt.

All this may not bring us very much nearer the solution of the problem but, as you were kind enough to suggest my doing so, I have taken the liberty of stating these preliminary views about it.

Sincerely yours,

H. F. ARTHUR SCHOENFELD

839.51/3761

Memorandum by Mr. Winthrop R. Scott of the Division of Latin American Affairs

[WASHINGTON,] June 28, 1932.

We have gone over with Mr. Dunn at length during the last week various questions concerning Dominican finances. Briefly, as a matter of record, the following may be noted:

Funding the Floating Debt: Mr. Dunn explained the desirability of funding the floating debt, first, because it was urgently needed as a constructive financial measure and second, the extreme political importance of such a move from the point of view of maintaining the prestige of President Trujillo. Mr. Bundy explained the difficulties from the Department's point of view of taking a formal step which would in effect be an acknowledgment of this increase in the Dominican public debt but added that he was inclined to feel that something would have to be done to take care of this debt, but that he was not certain in what form the matter could be handled or whether a formal bond issue would be necessary. Details of the possible funding operation were briefly discussed and the possibility that the interest rate on any bonds or certificates issued might be low and that payments of such certificates would inevitably be on a small scale and would, perhaps, have to be deferred for a year or so.

Mr. Dunn said that he was not anxious to begin allocations in the budget for the floating debt until he could see his way more clearly in this respect, and that it might be possible that the whole question of funding the debt could be held in abeyance for another year; in any event, the question was not immediately pressing, but he had desired to get the Department's general view point on this subject.

Possible Revisions of the Tariff: Mr. Dunn advanced the idea that the Dominican Government was more or less prevented from modifying the tariff because of the convention; that in many ways the present tariff was unscientific and not adapted to the needs of the Dominicans and that he, Mr. Dunn, would like to make recommendations with a view to making constructive changes in the tariff but that he did not know how the Department would feel about his going into tariff matters because of the relation of this matter to the Receiver Generalship. Mr. Dunn was informed that the convention provision concerning the modifications of the tariff was merely to protect the bondholders against measures which would curtail customs revenues but the Convention did not preclude making modifications of the tariff. It was pointed out that somewhat similar provisions existed in regard to Haiti but that the Haitian tariff was continuously being modified. In regard to the second point the question of Dunn's relation to Pulliam¹⁵ it was pointed out that Dunn as Financial Adviser to the Dominican Republic could properly make recommendations concerning any phase of Dominican finances. It was felt that details of this sort should be handled and agreements reached between Dunn, the American Minister and the General Receiver, who were in a position to work these things out on the job before bringing them up to the Department.

The Consolidation of the Internal Revenues Collected, Under Laws 190,¹⁶ et cetera, with the Customs Revenues. Mr. Dunn argued that for the sake of efficiency a consolidation of this sort should take place. He was informed that the Department was not disposed to object to the consolidation of revenues outside of the customs revenues in any way which might be worked out by the financial adviser, this being purely an internal matter for the Dominican Government to decide upon, but that the Department would not approve any steps which would have the effect of modifying the convention or burdening the United States with further responsibilities and that it would not be practicable to consolidate additional revenues under the Receiver General, thus raising questions concerning the convention and also concerning the operation of the Emergency Plan.

Technical Features of the Emergency Plan: Mr. Dunn stated that in his opinion the emergency law was drafted in a faulty way in certain respects in that a literal compliance with it would cause the Dominican Government to immediately begin the full amortization payments, should the revenues in any semester be one dollar above \$2,250,000. In addition he pointed out that there was nothing in the economic outlook to even remotely suggest that full sinking fund pay-

¹⁵ William E. Pulliam, General Receiver of Customs in the Dominican Republic.

¹⁶ *Gaceta Oficial* No. 3652, June 3, 1925.

ments could be resumed at the end of two years. It was admitted that the emergency law could not be followed out literally but that these questions would have to be solved as they came up.

Coinage of Additional Small Currency: Mr. Dunn took up the question of coining about \$200,000 worth of Dominican money of small denomination (less than five pesos), thus making a profit for the Government of perhaps \$200,000, an operation similar to one recently successfully carried on in Cuba. Mr. Dunn pointed out that there were not sufficient Dominican coins in circulation, American money being largely used for this purpose; that he would consult carefully with the bank before undertaking any such operation and arrange for the establishment of a suitable reserve against this new currency.

Mr. Bundy stated that he did not clearly understand the working of such an operation. Both he and Mr. Livesey¹⁷ felt that was a matter for study and Dominican decision.

The Employment of Mr. Hershey, the Purchasing Agent for the Bureau of Insular Affairs, by the Dominican Government: It appears that a month or so ago Mr. Pulliam had endeavored to have Mr. Hershey make some provisions for the Dominican Government. General Parker,¹⁸ upon learning of this proposed arrangement, had discussed it with the Department and expressed his disapproval of the employment of Mr. Hershey in this capacity. The Department did not urge General Parker to change his views, since it was felt to be primarily a matter for the Bureau of Insular Affairs to determine.

At my suggestion Mr. Dunn discussed this matter with General Parker and after his interview informed me that General Parker was giving further consideration to the matter and might possibly be disposed to take a more favorable attitude. Apparently the question was not definitely decided.

The Renting to the Dominican Government of a War Department Dredge: This question is too long to be handled in a brief statement, having been discussed from various angles by Mr. Dunn with the Department of Commerce, with Mr. Jones of the Bucyrus Erie Company, and with members of the State Department. As the matter now stands Mr. Dunn appears to be uncertain as to whether he will ask us to urge the War Department to reconsider its position or not. He is going to talk to the Manager of the South Porto Rico Sugar Company and other individuals in New York and will bring up the question again with the Department. In this connection I informed Mr. Dunn that it was possible the Department might be willing to urge the War Department to reconsider its attitude, but only if we knew there was a real emergency requiring the dredge to be loaned and also after we

¹⁷ Frederick Livesey, Assistant Economic Adviser.

¹⁸ Chief of the Bureau of Insular Affairs, War Department.

learned definitely that the Dominican Government was really sure that it wished the loan of the dredge. In other words, Schoenfeld, Dunn, Rickards¹⁹ and the sugar people would have to get together before they could expect the State Department to do anything further. I made no promises to Dunn whatever as to what the Department might do.

Amortization Fund: After discussing when amortization payments should be resumed it was understood that the Dominican Government would not begin paying until assured of the full emergency fund (\$125,000) up to the end of the fiscal year, December 31, 1932, but that when such revenues were assured that Government would in fact begin to apply money to the sinking fund.

In this connection Mr. Dunn was informed by Mr. Bundy that as the 1942 loan had a prior lien over the 1940 loan, all excess funds becoming available to amortization would have to be applied to the 1942 loan. Mr. Dunn stated that he understood this.

Military Mission: Mr. Dunn said that President Trujillo was extremely anxious to have a military mission composed of Marine Corps officers; that the principal reason for this was to build up his army to a point of efficiency . . . I said that my guess would be that a project for a Marine Corps Mission would not go through very well as far as the Department was concerned.

W[INTHROP] R. S[COTT]

839.51/3765

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 498

SANTO DOMINGO, July 20, 1932.

[Received July 25.]

SIR: I have the honor to inform the Department that in conversation today with Mr. F. Q. Rickards, Acting Chairman of the Budget Committee, I learn that the President of the Republic is giving serious consideration to the advisability of an early payment into the sinking fund of the foreign debt under the Emergency Law of October, 1931.

As previously reported, the Office of the Special Agent for the Emergency has for some months carried forward increasing amounts of cash in excess of all privileged requirements under the Emergency Law. The customs revenue is expected in the present month to fall considerably below that for recent months of the fiscal year though,

¹⁹ Fred Q. Rickards, Technical Adviser on Internal Revenue of the Dominican Republic.

of course, final figures will not be available until the end of this month. It appears, however, that the President is of the opinion that an early payment of moderate amount through the General Receiver to the Fiscal Agents for sinking fund would not seriously impair the probability that the Government will receive the \$125,000 monthly contemplated in the Emergency Law during the remainder of the fiscal year. In view of the present prices of Dominican bonds on the New York Stock Exchange, this Government feels that any funds remitted to the Fiscal Agents for sinking fund could be used to great advantage, if it can be done without risk to the current budget.

Mr. Rickards informs me that the President is inclined to await the return to Santo Domingo of Mr. W. E. Dunn, Financial Adviser to the Government, before taking action along this line, but that the President is alive to the beneficial effects upon Dominican credit of an early resumption of sinking fund payments by remittances within the present capacity of the Government to the Fiscal Agents for the purchase of bonds in the open market at prices adjusted to current quotations.

As opportunity offered for some time past, I have emphasized the wholesome effect on the Government's prestige and credit of early and spontaneous compliance with the provisions of the Emergency Law in respect of payment into the sinking fund. I have pointed out that such action on the part of the Government without any pressure from either the American Government or the Fiscal Agents would have much greater value than would be the case if the action now apparently in contemplation were taken at the instance of the Department or of the Fiscal Agents.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3786

*The Secretary of State to the Minister in the Dominican Republic
(Schoenfeld)*

No. 97

WASHINGTON, August 30, 1932.

SIR: The Department has received and given careful consideration to your despatch No. 545, of August 10, and your despatch No. 553 of August 17, 1932,²⁰ commenting upon and enclosing copies of correspondence exchanged between Mr. Dunn, the Financial Adviser to the Dominican Government, and Messrs. Lee, Higginson and Company, concerning the possibility of continuing the Fiscal Agency in the hands of the affiliate of this Company, namely, the Lee, Hig-

²⁰ Neither printed.

ginson Corporation. The Department has noted that Mr. Dunn appears to feel that it will be necessary to take steps to change the present form of the Dominican external debt and suggests that the transfer of the Fiscal Agency be made the occasion to modify the loan contracts so that the Fiscal Agent will retire unless he can reach an agreement with the Dominican Government regarding whatever operation is undertaken for refunding the debt or effecting an exchange of bonds.

The Department is inclined to feel that the arrangement contemplated above is one which can not properly be entered into by the Fiscal Agent. Should such a scheme be followed out, the Dominican Government would apparently impose its will concerning a rearrangement of its debt on the successor to the Fiscal Agent. In other words, that Government would presumably see to it in advance of designating such a successor that the latter would be willing to carry out a refunding or exchange arrangement agreeable to the Dominican Government. Of course, such arrangements to this end as the Government might desire might fail to be to the advantage of the bondholders in whose interest the Fiscal Agent is presumed to act. In brief, it is believed that the interests of the bondholders might not be served by this suggested modification of the loan contracts and in view of the treaty agreement which this Government has entered into with the Dominican Government on the strength of which the bonds in question were sold in the United States, the Department would not desire to see any modification made in the loan contracts which might be of disservice to the bondholders. It would appear doubtful also if a Fiscal Agent would desire to engage in advance to bind himself to approve an exchange plan, the terms of the new bonds not being stated. This would appear to be true even if the Fiscal Agent would not be expected to approve such a plan unless it had already received the Department's approval, since it is entirely conceivable that the Fiscal Agent might see objections to such a plan which had not occurred to the Department.

The Department has no comments to offer concerning the other questions which the Financial Adviser has raised, namely, the possibility of modifying the provisions in the loan contracts for publication of any resignation of the Fiscal Agent, or the question of requesting the Fiscal Agent to segregate the Dominican account from other funds in his possession.

There is enclosed for your further information a copy of a memorandum on this subject prepared in the office of the Legal Adviser.²¹

Very truly yours,

For the Secretary of State:

FRANCIS WHITE

²¹ Not printed.

839.51/3794

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 594

SANTO DOMINGO, September 6, 1932.

[Received September 12.]

SIR: I have the honor to acknowledge receipt of the Department's instruction No. 97 of August 30, 1932, (File No. 839.51/3785 [3786]), regarding the suggestion made by the Financial Adviser to the Dominican Government that an eventual arrangement for the transfer of the Fiscal Agency for Dominican loans from Lee, Higginson and Company to another banking firm should have in view the possibility of effecting an exchange of bonds carrying a lower rate of amortization than the Dominican bonds now outstanding.

I brought the substance of the Department's instruction to the attention of Mr. Dunn prior to his departure for the United States today. Mr. Dunn informed me that he feared he had not made his position on this matter clear. He explained that what he had in mind was a general understanding with the new Fiscal Agents that they would not oppose an exchange plan of this kind in principle, as Messrs. Lee, Higginson and Company had done when it was suggested last year. Mr. Dunn pointed out that, having been in the securities business himself, he realized that a banking firm was primarily interested in the profit to be made from a refunding operation which would be naturally much greater than would be the fee for its part in effecting an exchange operation. He added that what he meant to convey in his letter and memorandum enclosed with my despatches Nos. 545 and 553 was that if a bond exchange plan could be worked out on terms satisfactory to the Department of State, the Dominican Government and the bondholders, it was desirable that the banking firm which was acting as Fiscal Agent should not actively oppose the execution of such a plan but rather cooperate in putting it through. It was an understanding of this kind which he hoped could be reached with the new Fiscal Agents for Dominican loans when the resignation of Lee, Higginson and Company takes effect.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3797

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] September 12, 1932.

The Dominican Minister, Dr. Despradel, came in this morning and showed me a telegram from his Government dated September 10 to the following effect:

"Communicate today to State Department that by spontaneous decision of President Trujillo there will be remitted on Monday to the Fiscal Agent \$50,000 for purchase of bonds of Dominican debt as part of probable surplus from the emergency law."

Dr. Despradel said that he had not received this message until Saturday afternoon and had not been able to communicate it to the Department earlier.

I thanked him and said I thought this was an admirable move in line with the emergency legislation which provided that any excess above the emergency law requirements should go for amortization.

E[DWIN] C. W[ILSON]

839.51/3810

Memorandum by Mr. Winthrop R. Scott of the Division of Latin American Affairs

[WASHINGTON,] October 3, 1932.

Conversation: Mr. W. E. Dunn, Financial Adviser to the Dominican Government.

Mr. Bundy.

Mr. Scott.

Mr. Dunn stated that he wished to report concerning the matters he had discussed in New York. First, with regard to the Fiscal Agency contract; he said that practically any of the big financial institutions with the exception of the National City Bank were willing to take over the agency on the same basis on which it was now operating which involved the payment of two per cent by the Fiscal Agent to the Dominican Government on funds on deposit with the Agent; the members of the Lee, Higginson Corporation, with the exception of Mr. Blair in Chicago, were not anxious, according to Mr. Dunn, to take on the new Fiscal Agency. He expressed his opinion that Lee, Higginson would be content simply to act as paying agent in their Boston and Chicago offices for the coupons presented in those cities. He added that he thought the Guaranty Trust Company might perhaps be the most suitable institution to take over the agency as that organization had previous experience in Dominican financial matters although President Trujillo was not particularly friendly to that company because of a misunderstanding. The President thought that the Guaranty Trust owed the Dominican Government about \$45,000; as a matter of fact Dunn had now found out that this money did not belong to the Dominican Government but was being held by the Guaranty Trust Company against payment of bonds of the 1908 issue which had not been presented for payment; within the last few days, how-

ever, \$39,000 of these bonds had been presented so that there remained only a few thousand dollars in this fund.

Mr. Dunn next referred to the plan for working out (if possible through an agreement with the bondholders or an organization representing them) a new arrangement by which additional funds would be made available to the Dominican Government for urgently needed reconstruction and rehabilitation purposes. Mr. Dunn stated that he had discussed this matter with various bankers and other financial people in New York and that they had been in general accord that such a procedure was desirable.

In reply Mr. Bundy pointed out the great difficulty from the Department's point of view of any change which might divert further funds from the bondholders. He pointed out that this Government had gone very far in its acquiescence in the breaking of the convention; that this action had in fact released the very substantial amount of \$1,500,000 per annum to the Dominicans. Mr. Bundy pointed out further, and stressed the point, that the first problem was for the Dominicans to show 100% performance during the first year the Emergency Plan was in operation; this would be essential from the Department's point of view and in his opinion from that of the Bankers and bondholders as well. The question was left with the understanding that Mr. Dunn would prepare an objective and comprehensive statement showing the details of what he had in mind and the Department upon receipt of this statement would give consideration to the matter.

Mr. Dunn next spoke of the question of silver coinage, stating that he had discussed this with Professor Kemmerer²² who thought the plan was sound with the understanding that appropriate legislation would be passed providing the necessary reserve for the new coins et cetera and providing that there were reasonable assurance that such legislation would not be subsequently revoked by the Dominican Congress. Mr. Dunn explained that the coinage of silver pesos of convenient size was necessary to replace the old cart wheel pesos. He estimated that the operation would provide a profit of about \$100,000.

Mr. Bundy stated that without studying the proposition in great detail he was not prepared to make any statement about it. Of course, the Department would not wish to interfere with a legitimate coinage operation; on the other hand it would be interested were the Dominican Government to attempt some inflationary scheme.

The interview closed, Mr. Dunn stating that he was returning to Santo Domingo on October 6.

W[INTHROP] R. S[COTT]

²² Edwin W. Kemmerer, economist, Princeton University.

839.51/3817

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 645

SANTO DOMINGO, October 19, 1932.

[Received October 24.]

SIR: Referring to my despatch No. 637 of October 13, 1932,²³ reporting the return to this country of Mr. W. E. Dunn, Financial Adviser to the Dominican Government, after a visit in the United States, I have the honor to enclose for the Department's strictly confidential information copy in duplicate with translation of a memorandum prepared by Mr. Dunn for President Trujillo²³ reporting the substance of Mr. Dunn's conversations in the United States regarding the Dominican financial situation and recommending in general terms a course of procedure to be followed by this Government.

Mr. Dunn informs me today that the program set forth in the enclosed memorandum was taken up in the last few days by the Minister of Finance²⁴ with the President of the Republic at the latter's summer residence at San José de las Matas. Sr. Pichardo yesterday informed Mr. Dunn that it was the President's decision to accept the Financial Adviser's recommendation of the Guaranty Trust Company of New York as the new Fiscal Agent for Dominican loans upon the effective resignation of Messrs. Lee, Higginson & Company. Mr. Dunn told me that he had accordingly sent to Mr. Spencer Phenix of Messrs. Lee, Higginson & Company, a personal cablegram advising Mr. Phenix of the President's choice of the Guaranty Trust Company and requesting that Mr. Phenix take the necessary steps to have Lee, Higginson & Company formally notify the Dominican Government of their resignation as Fiscal Agents, to make appropriate announcement in the press as required under the loan contracts and to do other necessary things by informal arrangement with the Guaranty Trust Company to facilitate the formal appointment of the Guaranty Trust Company as Fiscal Agent for Dominican loans under the loan contracts.

With regard to the second and more far-reaching phase of Mr. Dunn's memorandum herewith transmitted namely, that which deals with the eventual modification of the Emergency Law so as to make available to the Dominican Government increased funds for productive public works and involving a downward adjustment of the rate of amortization of the funded debt, Mr. Dunn informed me that he was now at work making the necessary studies and outlining the gen-

²³ Not printed.

²⁴ Rafael Paino Pichardo, appointed Dominican Secretary of State for Finance, September 1, 1932.

eral scope of a proposed communication to the American Government contemplating the amendment of the Emergency Law. Mr. Dunn believes that it will be possible to prepare an outline of the proposed plan in the course of the next few weeks so that it may then be submitted informally to the Department of State and to the new Fiscal Agent when appointed.

In discussing with Mr. Dunn his proposed plan for a permanent arrangement involving reduced rates of amortization on the foreign debt, I have expressed the opinion that his studies and calculations should be based upon all the revenues collected at the customs houses of the Dominican Republic, including not only what is now known as customs revenue but also the so-called internal revenue collected under the agreement of 1930 between the Government and the Receivership,²⁵ perhaps excluding only some minor revenues made up of service fees as distinct from what may properly be called duties and taxes. In expressing this opinion I have had in mind the circumstance that during the life of the Convention of 1907²⁶ and since the conclusion of the Convention of 1924 the Dominican Government has from time to time passed so-called internal revenue legislation applicable to imports. By the simple process of imposing such taxes and calling them internal revenue, the yield of the customs revenue proper has been materially reduced and could conceivably be wiped out. I have felt, therefore, that in a situation where it was proposed permanently to reduce the amortization rate on the foreign debt and to negotiate a new agreement with the bondholders and eventually with the American Government, the possibility of future evasion by such means of the obligations of the loan contracts and of the Convention in respect of the customs revenue, should be forestalled. Mr. Dunn seems fully to understand the importance of this point and informs me that it is his intention to base his proposal on the consolidated customs revenue, including that now derived from so-called internal revenue collected at the customs houses.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3828

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 677

SANTO DOMINGO, November 15, 1932.

[Received November 21.]

SIR: I have the honor to enclose for the Department's strictly confidential information the Spanish text with translation of a draft

²⁵ See Dominican Customs Receivership, *Report of the 23d Fiscal Year, 1930*, pp. 10-11.

²⁶ *Foreign Relations*, 1907, pt. 1, p. 307.

note to be addressed by the Dominican Minister at Washington to the Secretary of State²⁷ setting forth the reasons which in the opinion of the Dominican Government require a change in the Emergency Law (No. 206) passed by this Government last year and diverting a part of the customs revenues normally used under the Convention of 1924 for the service of the foreign debt into the Treasury of the Dominican Government for other uses. I also enclose copy with translation of the Spanish draft of an amendment to the Emergency Law, a statement in English regarding the public works budget of the Dominican Government for 1933 with a list of other public works deemed by this Government to be of great urgency and an outline in English of a financial program for the Dominican Republic with explanatory remarks.²⁸ The last three enclosures mentioned are annexes to the proposed note from the Dominican Minister at Washington.

I received these documents today from Mr. William E. Dunn, Financial Adviser to the Dominican Government and Special Agent for the Emergency, who informs me that under the instructions of President Trujillo he expects to proceed to the United States at the end of this week to discuss the comprehensive plan described in the draft note and its enclosures with the Department of State and with others interested in Dominican finances.

It is my understanding that Mr. Dunn expects to secure the approval of the holders of the Dominican foreign debt or representatives of such holders for the plan of re-organization in question. The enclosed documents are self-explanatory and appear to require no special comment by this Legation. In substance they represent a plan whereby the Emergency procedure now in force will be extended with modifications until January 1, 1935. In the meantime, the Dominican Government will continue to pay interest and a nominal amount for sinking fund on its foreign debt but will divert increased funds from the customs revenues for other purposes which are specified in the documents but which appear to be mainly the carrying out of certain public works designed to strengthen the tax paying capacity of the country. After January 1, 1935, the plan contemplates payments into the sinking fund of the foreign debt on a sliding scale adjusted to increases in customs revenues which may develop as a result of improvement in the purchasing power of the Dominican people. It is represented to me that the legislation proposed to be enacted to amend the Emergency Law is not now considered by the Dominican Government as a final form of re-organization of the Dominican foreign debt but, rather, as a pattern to

²⁷ Not printed.

²⁸ None printed.

which the Dominican Government will endeavor to adjust such a definitive re-organization by agreement with the holders of Dominican bonds. If a permanent form of agreement satisfactory to the bondholders can be worked out, it is my understanding that the Dominican Government hopes to see it approved by the American Government.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3826a : Telegram

*The Secretary of State to the Minister in the Dominican Republic
(Schoenfeld)*

WASHINGTON, November 18, 1932—2 p. m.

35. Referring to your letters of November 3rd and 11th to Bundy,²⁹ is it the plan to present the note referring to the change in Emergency Law within the near future? There is great difficulty in acquiescing in any change diverting further amortization payments where the absolute necessity of such change has not been demonstrated. Are you and Pulliam convinced that the diversion of further monies for the Dominican Government is absolutely necessary in order to preserve the Dominican economic structure and to make the continuance of interest payments and the safeguarding of the situation possible?

Department suggests that prior to any final decision as to amending Emergency Law opportunity is necessary to go into the matter in detail.

STIMSON

839.51/3827 : Telegram

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

SANTO DOMINGO, November 19, 1932—1 p. m.

[Received 8:33 p. m.]

60. Department's telegram No. 35, November 18, 2 p. m. Financial Adviser to the Dominican Government left here by air this morning and should be in Washington November 21. He took with him instructions from this Government to the Dominican Minister at Washington embodying proposed note and enclosures of which copies were transmitted to the Department with my despatch No. 677 of November 15 now en route by air mail. Before his departure I

²⁹ Neither printed.

recommended to him that proposed note should not be delivered to the Department pending thorough consultation with the Department and I understand this recommendation will be followed.

In my opinion absolute necessity for diverting further monies from amortization payments cannot now be said to exist in the same sense as necessity for such diversion existed prior to the enactment of Emergency Law last year. Orderly Government and vital administrative functions are not now as they were then in imminent danger of collapse. Trend of Government revenue, however, has shown no improvement beyond that represented by the funds released for use within the country through operation of the Emergency Law. Trend of revenue rather shows deterioration in economic stability of this country. The Dominican Government believes that unless this trend can be reversed there is real, though not immediate, danger that this Government will be unable to make interest payments on the foreign debt. I cannot express an opinion as to whether the particular program of so-called reproductive public works to which it is proposed to apply further monies to be derived from amortization payments is the program best calculated to reverse present trend of revenue. I know no one here whose opinion on that subject I would accept as conclusive. But opinions of bankers, business men and General Receiver of Customs coincide that the purchasing power of the Dominican people shows no sign of revival.

If this continues, payments of interest may become impossible. In the light of the opinions available I should say we would be justified in accepting the Dominican Government's view that further diversion of monies from amortization to apply them to a program of physical rehabilitation is necessary. At the same time I would recommend careful scrutiny, if possible by disinterested but competent technical expert, of the specific works proposed to be undertaken in order to determine which of them if any may be considered likely to preserve economic stability of the Dominican Government by keeping up or increasing the national revenue.

SCHOENFELD

839,51/3834

Memorandum by the Assistant Secretary of State (Bundy)

[WASHINGTON,] November 22, 1932.

Mr. William E. Dunn called today and I told him that I trusted the Dominican Government would send no notification of a change in the Emergency Law without a good deal more time for consideration; that if they did, this Government would necessarily have to take a

position which would be most unsatisfactory to the Dominican Government. I told Mr. Dunn that the situation was very different from that confronting the United States in October, 1931; that, as I analyzed the picture, it is no longer a question of emergency to keep the wheels of the Government running but is more analogous to the case of receivership where the receiver wants to borrow from receivership certificates. Diverting further amortization would in substance be loaning the bondholders' money to the Dominican Government. Before any such procedure could be contemplated in Washington there would have to be a showing similar to that presented in a receivership that loans are absolutely vital to the preserving of the receivership property and the maintenance of it in such shape that it can continue to operate and pay the interest on the debt.

I suggested to Mr. Dunn that the preliminary of any such showing would, in my judgment, have to be an independent investigation by experts known to the Department to be both able, responsible and disinterested. I further felt that this Government should have in front of it a statement from bondholders or their representatives approving such report. Therefore, it seemed to me that the first step is to go ahead to try to get these preliminary measures taken, namely, some bondholders representation and an independent investigation. Mr. Dunn stated that this was in line with what he had been thinking and that his idea of a note from the Dominican Government was merely an outline including the preliminary steps which I had mentioned and that the preliminary note would not call for any decision by this Government.

Mr. Dunn stated that he would go to New York to discuss the matter with Counsel there and try to see whether it was possible to draft preliminary correspondence along these lines, also making progress with respect to the bondholders end. Thereafter he would come back to Washington and report what he had been able to accomplish.

H[ARVEY] H. B[UNDY]

November 23, 1932.

This morning I called Mr. Dunn in New York on the telephone and read him the preceding memorandum. I further stated that since seeing him I had had a chance to look over the draft note and that this draft did not seem to me to meet the situation. Mr. Dunn stated that he would work upon the matter further and come back to Washington at the beginning of next week.

H[ARVEY] H. B[UNDY]

839.51/3833

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 685

SANTO DOMINGO, November 25, 1932.

[Received November 28.]

SIR: I have the honor to enclose for the Department's information translation of editorial comment ³⁰ appearing in today's edition of the newspaper *Listín Diario* advocating the suspension of interest payments on the foreign debt of the Dominican Republic on the ground that such a measure is required by existing economic conditions in this country.

The article seems noteworthy at this time in view of the confidential negotiations recently begun by this Government to secure a modification of the Emergency Law and further suspension of amortization payments on the foreign debt. Since the existence of these negotiations is supposed to be unknown to the public and the press, it is probable that the article herewith transmitted has been inspired from official sources, in order to prepare the public mind for any modification of the Emergency Plan that may prove practicable and more advantageous to this Government than the existing law. The article has aroused considerable interest in Santo Domingo and has served to crystallize rumors which have been current lately that some undefined modification in the Emergency Plan was under consideration. The fact that the article appeared in *Listín Diario* rather than in *La Opinión*, which is more frequently used for officially inspired press comment, may also have significance in that editorial comment in the *Listín* is usually interpreted as a spontaneous expression of independent opinion.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3842

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] December 8, 1932.

Mr. Despradel, the Dominican Minister, came in under instructions from his Government to show a telegram he had received from the Dominican Minister for Foreign Affairs, which reads as follows:

"The Honorable President Trujillo, in an interview granted to *La Informacion* (of Santiago), declares emphatically that it is impossible

³⁰ Not printed.

that at any time the punctual payment of interest on the debt should be interrupted, and that the Dominican Government will always know how to honor its credit by fulfilling its obligations. The Ministry of Finance is publishing an official communication in the same sense, in view of the fact that the *Listín Diario* has suggested that it would be convenient to interrupt the payment of interest. Please inform the Department of State of the foregoing."

I told Mr. Despradel that I had noted the article in the *Listín Diario* and that I was glad to be informed of the statement made by President Trujillo and by the Ministry of Finance.

Mr. Despradel then said, "speaking entirely personally and not as the representative of his Government", that he had gone to New York a few days ago with Mr. Dunn, after the latter had visited the Department, that they had talked with the Guaranty Trust Company, which would be the new Fiscal Agent, and that they had found a "good atmosphere" for the general lines of the plan which the Dominican Government had in mind. He said that when Mr. Dunn came up on his last trip he had told Mr. Dunn that he felt that the approach to the State Department was the wrong way to go about it. He had felt at that time that the initial approach should be to representatives of the bondholders and he had so advised Mr. Dunn and his Government, and he was glad to know that this was now being done. Mr. Despradel also said that he had advised his Government that it should move with the greatest care in this matter and that only on a showing of "absolute necessity" could they hope to get the approval of the bondholders and ultimately of the United States Government for an extension or possible modification of the Emergency Law.

E[DWIN] C. W[ILSON]

839.51/3843

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 715

SANTO DOMINGO, December 14, 1932.

[Received December 19.]

SIR: I have the honor to inform the Department that Mr. William E. Dunn, Financial Adviser to the Dominican Government and Special Agent for the Emergency, returned to Santo Domingo from the United States yesterday.

Mr. Dunn has informed me that the legal preliminaries for the transfer of the Fiscal Agency for Dominican loans from Messrs. Lee, Higginson and Company to the Guaranty Trust Company were passed upon by counsel in New York and that the arrangements for the transfer would shortly be completed. In the meantime, Messrs.

Lee, Higginson and Company had formally tendered to the Dominican Government their resignation as Fiscal Agents and the necessary documents and executive decree were being drawn up here in compliance with the recommendations of counsel in New York. As soon as appropriate notification of action at this end were transmitted to New York, it was expected that public announcement under the loan contracts would be made of the resignation of Messrs. Lee, Higginson and Company and of the appointment of the Guaranty Trust Company as Fiscal Agents for Dominican loans.³¹ According to Mr. Dunn, it was possible also to arrange for the appointment of Lee, Higginson Corporation as co-paying agents for Dominican loans in Boston and Chicago.

Mr. Dunn informs me that the proposed legislation to amend the Emergency Law referred to in my despatch No. 677 of November 15, 1932 and previous correspondence, is in abeyance for the present inasmuch as it was found expedient to change the sequence of the procedure as contemplated at the date of my despatch cited. It appears now to be intended to send a formal communication to the new Fiscal Agents, when they assume their duties, substantially in the terms of the proposed note to the American Government enclosed with my despatch mentioned, with a view to consideration of the problem by the Fiscal Agents, the organization of some agency representing the bondholders with whom the Dominican Government may properly discuss the situation and with a view to the eventual amendment of the Emergency Law in pursuance of the suggestions and consent of the Fiscal Agents and of such authorized agency representing the bondholders as it may prove practicable to set up.

It is apparently the intention of the Financial Adviser to return to the United States during January next, at which time the necessary public announcements of the transfer of the Fiscal Agency are expected to have been published in the newspapers for the requisite period and the Fiscal Agency will have been definitely taken over by Guaranty Trust Company. At that time, Mr. Dunn expects to begin detailed discussion of the general plan above outlined preparatory to its execution in so far as it may require action both in the United States and in Santo Domingo.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

³¹ Decree dated December 14, 1932, issued by the President of the Dominican Republic, accepting the resignation of Messrs. Lee, Higginson and Company as Fiscal Agents for Dominican loans and appointing the Guaranty Trust Company of New York as Fiscal Agents for these loans was published in *Gaceta Oficial* No. 4531, December 17, 1932.

839.51/3851

The Dominican Minister (Despradel) to the Secretary of State

[Translation]

WASHINGTON, December 24, 1932.

EXCELLENCY: Acting under the instructions of my Government I have the honor to enclose herewith a copy of a letter which my Government is sending to the new Fiscal Agents of the external dollar loans of the Dominican Republic.

I take [etc.]

ROBERTO DESPRADEL

[Enclosure—Translation]

The Dominican Secretary of State for Finance (Pichardo) to the Guaranty Trust Company of New York, Fiscal Agents of the Dominican Republic

SANTO DOMINGO, December 20, 1932.

SIRS: Under date of October 24, 1931, my Government, after careful study and consideration, enacted emergency legislation authorizing the temporary diversion of a part of the customs revenues from the payment of sinking fund on the Republic's external debt in order to apply such funds to the maintenance of government activities requisite for insuring internal law and order. This emergency legislation provided for the payment to the Dominican Government of a maximum sum of \$125,000.00 per month, or \$1,500,000 annually, from customs revenues, after full payment of interest on all outstanding external bonds and of the necessary expenses of the General Receiver of Customs and of the Special Emergency Office created by the law. Any balance remaining in the emergency fund after payment of all such privileged expenses was to be paid over by the Special Emergency Agent to the General Receiver of Customs, who in turn was required to remit such balance to the Fiscal Agents of the Republic for the payment of the sinking fund of our external bonds.

The provisions of the Emergency Law were put into execution at the earliest possible moment, and have been faithfully complied with. Simultaneously my Government undertook the various and successive reforms in its general fiscal administration that it believed necessary to demonstrate its earnest desire to conform to the letter and spirit of the emergency legislation, viz: an efficient and correct administration of all government revenues in such a way as to justify the partial diversion of funds pledged for the payment of service charges of the foreign debt. A recapitulation of these reforms seems pertinent at this point. They include the following:

1. Punctual payment of interest on all outstanding external bonds and earmarking of excess funds for sinking fund purposes after payment of expenses of the customs and emergency organizations.

2. Maintenance of a balanced budget, and prompt payment of current appropriations for salaries and supplies.

3. Establishment of a scientific system of control over government expenditures.

4. Centralization of Government purchases in a reorganized Bureau of Supplies with resulting economies and benefit to the Dominican people as a whole.

5. Inauguration of internal revenue reforms under a competent foreign specialist.

6. Rigid economies in all branches of the public administration.

7. Gradual reduction of the floating debt under a special law enacted for this purpose (Law #229).

8. Inauguration of an economical and efficient public works program.

The foregoing measures cover almost the entire field of Dominican fiscal administration, and will demonstrate my Government's good faith and earnest desire to conform to the principles of the Emergency Plan. It is my Government's desire and intention to continue to enforce these internal fiscal reforms and to make them permanent features of the Republic's fiscal structure, and special laws to this effect will be enacted where necessary to insure such permanency.

As a purely temporary expedient, designed to prevent the threatened collapse of orderly Government in the Dominican Republic, the Emergency Law as originally passed has served its purpose well. As its name indicates, however, it could never be considered as a permanent solution of the nation's fiscal difficulties. Furthermore, a year's experience under the law has revealed certain defects even in its original form which should be corrected. For instance, it is now a foregone conclusion that the Republic will not be able to resume full payment of sinking funds aggregating \$1,850,000 per annum by the end of 1933, not including arrears of approximately \$4,000,000 that will have accumulated by that time. It is therefore obvious that in any case the period of the emergency must be extended beyond the time originally fixed in the law. Again, the provision in Article 7 that the emergency law shall become null and void and full sinking fund payments renewed in case the general fund revenues exceed \$2,250,000 in any given semester is also impracticable, since even with the utmost economy it has been impossible to reduce the general fund expenditures to less than about \$2,400,000 per semester. Such a provision should at least be based on some sliding scale arrangement. There are also several ambiguous provisions which should be cleared up in the light of actual experience since the passage of the law.

All of these points are of relatively minor importance, however, as compared with the necessity of facing the entire external debt problem in a frank and open manner, and endeavoring to work out a permanent plan that will be mutually advantageous to my Government and to the bondholders. My Government is the first to recognize and admit the unwisdom of sinking fund provisions which would attempt to extinguish the Republic's external loans at the rate of 8-1/3 and 10% per annum respectively, especially during a period of intense world depression when my country does not have sufficient resources to meet some of its most pressing vital needs. As such a permanent plan will probably require considerable time to perfect, my Government cannot afford to leave undone in the meantime anything that may promise to remedy its present depressed economic situation.

The Emergency Law, vital though it has been to the welfare of the Dominican people, has merely sufficed to hold together a precarious situation, and has not been far-reaching enough to affect general basic conditions which have a direct influence on such a situation. In other words, the efforts of my Government under the present law have necessarily been limited to carrying on essential processes of government on a greatly reduced scale, and sufficient funds have not been made available to stimulate economic activities on which final recovery must depend. It is the conviction of my Government that law and order having been safeguarded by the present emergency resources made available, it will be sound economy to carry out a modest program of vital rehabilitation and stimulation of the productive resources of the country without which a further dwindling of the national revenues can hardly be avoided. Such a policy would also seem to be vital to the interests of our foreign creditors, since a continuation of the declining tendency in revenues would obviously make it more and more difficult to pay even the interest on our external bonds.

The bare essentials in such a program include the maintenance of means of communication whereby the products of the country can be exported to foreign markets and the imports of merchandise, from which a large part of our revenues are derived, can be distributed in the local markets. Such activities would include the repair and upkeep of existing roads, the opening up of inexpensive new roads to tap productive areas now isolated from outside markets, the erection of sorely-needed bridges, the dredging of some of our ports which have been neglected for about four years, and the construction of other public works that will be productive of additional revenue. The funds that are available for such purposes, even with the aid of present emergency funds, are not sufficient to carry out a

minimum economical program of maintenance and rehabilitation, covering essential activities; and further delay will endanger the Republic's physical assets without which it could not maintain its present standards of living and stage of economic development. Additional funds are also needed for practical agricultural relief in order to bring about an increase in the volume of our products, thus offsetting as much as possible the low commodity prices now prevailing and conserving the country's purchasing power.

It is difficult to see where funds can be obtained for such a program of reproductive rehabilitation over a period long enough to show real results except through a permanent change in the sinking fund provisions of our external loans or through increased taxation. In view of the great shrinkage in the national income, increased taxation is not believed to be justified or feasible except on a very small scale.

My Government, therefore, believes that it is urgent to amend the present emergency law to meet conditions that will undoubtedly continue to prevail beyond the end of 1933, and further to assist in making possible the program of internal rehabilitation herein discussed. My Government feels that it can be justly proud of its present public works organization and of the methods that have been adopted after a preliminary effort to carry on such activities through private foreign contractors. The fact that both the technical and financial aspects of the work will be efficiently handled and that full value will be obtained from the expenditure of every dollar would seem to justify the application of all possible funds for such reproductive purposes for a limited period of time rather than to use such sorely-needed funds for the purchase of our external bonds in the open market to the detriment of our international balance of payments and perhaps of the payment of interest itself.

My Government is confident that the program it desires to carry out, of which the amendment of the Emergency Law is merely a preliminary step, will be to the best mutual interests of the holders of our bonds and of the Dominican Republic. It is my Government's idea to submit such a program to yourselves as the incoming Fiscal Agents of the Republic and to the consideration of a Bondholders' Committee, immediate steps for the formation of which would be undertaken by my Government with the aid and advice of yourselves. The general features of this program to serve as a basis of discussion with yourselves and the Committee of Bondholders, would comprise (1) extension of the emergency law and possible amendment thereof; and (2) modification of the present loan contracts, with particular regard to a revision of sinking fund provisions.

It is the belief of my Government, based on its experience under the Convention of 1907, that amortization payments based on the so-called "barometer of prosperity" principle, or a sliding scale, will result in a more rapid retirement of our foreign debt than would be possible under any rigid scale of payments that might be devised at present. It will be recalled that the 50-year bonds issued under that Convention were retired in a period of 19 years, i. e., in 1927 instead of 1958. There seems to be no valid reason why an arrangement based on a similar principle in harmony with the present outlook would not also give good results.

Very truly yours,

PAÍNO PICHARDO

839.51/3869

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 827

SANTO DOMINGO, February 28, 1933.

[Received March 3.]

SIR: I have the honor to enclose for the Department's strictly confidential information copy of a memorandum of conversation today with Mr. William E. Dunn, Financial Adviser to the Dominican Government and Special Agent for the Emergency, who returned today from a month's sojourn in the United States.

The memorandum is self-explanatory and sets forth in outline the recommendations to be made by the Financial Adviser to the Dominican Government as to the next step in the procedure for a re-adjustment of the external debt of the Dominican Republic. It is possible that Mr. Dunn's recommendations, if found acceptable to the President of the Republic, will be acted on in the near future.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

[Enclosure]

*Memorandum by the Minister in the Dominican Republic
(Schoenfeld)*

[SANTO DOMINGO,] February 28, 1933.

Mr. William E. Dunn, Financial Adviser to the Dominican Government, who returned from the United States this morning, called on me at 11 a. m. Mr. Dunn said that shortly after his arrival in New York a meeting was held by him with representatives respectively of the National City Bank, Lee, Higginson & Company, Brown Brothers-Harriman, Dillon, Read & Company and the Continental Illinois

Trust Company, for the purpose of discussing the Dominican external debt situation. As a result of that and subsequent meetings with representatives of these banks and of the Guaranty Trust Company, Fiscal Agents for Dominican loans, and after consultation of counsel (Mr. Jesse Knight of the firm of Curtis, Mallet-Prevost, Mosle and Colt) a plan had been evolved for further procedure. The plan contemplated the formation of an Advisory Committee, consisting of Messrs. W. W. Cumberland (Chairman), Dana G. Munro and A. W. Kimber of White, Weld, with the assistance of such representatives as the bankers might designate for the purpose, to study the entire question of the Dominican external debt with a view to the eventual formulation of a plan of adjustment which would be considered by a committee to represent the bondholders, to whom the plan would be submitted by the Advisory Committee after consultation with the Fiscal Agents, the Dominican Government and the American Government.

A necessary next step in the procedure, therefore, would be legislative action by the Dominican Government authorizing the Executive Power to deal with the Advisory Committee in order to link up the Dominican Government with the Committee and the other parties in interest, if and as a plan for the permanent re-adjustment of the debt is developed. The legislation in question would simply extend the Emergency Plan in its present form for another year beyond the present date of expiration and would grant the Executive the authority above referred to and authority to make the necessary disbursements from the reserve in the Emergency Fund. Official advice of the Dominican Government's intention to legislate in this sense would be transmitted to the American Government either directly or through this Legation.

I told Mr. Dunn that I was not in a position to express any opinion on the proposed procedure. Mr. Dunn said that he fully understood that any action which might be taken by the Dominican Government in pursuance of his recommendation along the lines above indicated must necessarily be purely unilateral, in the same way as the Emergency Law, etc., had been unilateral. He urged, however, that without the proposed legislation neither the Advisory Committee, the Fiscal Agents nor the other bankers could properly proceed with the study of any plan for the regularization of the foreign debt question or the correction of the default in sinking fund payments since the Emergency Law went into effect. Under these circumstances it was necessary in his opinion and, as he said, in the opinion of all those whom he had consulted in New York, for the Dominican Government to secure the legislative authority in question. Mr. Dunn pointed out also that under the proposed plan of procedure the Dominican Government would get no more from the Emergency Fund than at present,

pending the permanent re-adjustment of the amortization rate, and that this plan admitted of no further delay in execution since continued uncertainty in the existing precarious state of the matter would be harmful to the political and economic stability of the Dominican Republic.

I gathered from what Mr. Dunn said that if the President accepts his recommendation the official note from the Dominican Government notifying of the proposed procedure may soon be forthcoming.

H. F. A[RTHUR] S[CHOENFELD]

839.51/3871

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 832

SANTO DOMINGO, March 3, 1933.

[Received March 6.]

SIR: Referring to my despatch No. 827 of February 28, 1933, reporting the recommendations proposed to be made by the Financial Adviser of the Dominican Government, Mr. William E. Dunn, to the President of the Republic for the early enactment of legislation extending the Emergency Law one year beyond its present date of expiration, granting authority to the Executive Power to deal with the Advisory Committee recently set up in New York to study a plan of readjustment of the amortization rate on this Government's external debt and authorizing the Executive to meet the expenses incident to these negotiations from the cash surplus in the Emergency Fund, I have the honor to inform the Department that I learned yesterday from Mr. Dunn that he had submitted his recommendations to the President of the Republic in a personal interview on March 1st.

Mr. Dunn informed me that the President seemed to be favorably inclined towards his recommendations as described in the enclosure to my despatch above cited. He said that on yesterday morning, March 2nd, the President had summoned the Minister of Foreign Affairs and the Minister of Finance into consultation on the subject. Mr. Dunn, however, was not included in the invitation to attend this conference.

I have not been informed of the result of the President's conference with the two Cabinet officers or other members of the Government whom he may have consulted. Indeed, I have not discussed the matter with any Dominican official other than the Financial Adviser. To the latter I have said, as previously reported, that I was not in a position to express any opinion regarding the proposed procedure and I have confined myself to hearing Mr. Dunn's outline of his recommen-

dations and the facts which in his opinion justify them. If this Government accepts the Financial Adviser's recommendations and if I am consulted by any member of the Dominican Government, it is my intention, unless otherwise instructed, to suggest that regardless of the merits of the proposed procedure it would seem appropriate for the Dominican Government, in view of the forthcoming change of administration in the United States, not to be needlessly precipitate in enacting the proposed legislation or in transmitting formal notice to the American Government of the proposal to enact this legislation.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3878

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 845

SANTO DOMINGO, March 10, 1933.

[Received March 13.]

SIR: Referring to my despatch No. 840 of March 8, 1933,³² in further relation to the recent formation of an Advisory Committee to study the question of the reduction of the amortization rate on the Dominican Government's external debt, I have the honor to enclose for the Department's strictly confidential information copy of a memorandum by the Financial Adviser to the Dominican Government on this subject.³²

I understand from Mr. Dunn that the President now expects to take a final decision regarding recognition of the Advisory Committee in the course of the next few days. Mr. Dunn tells me that he has been anxious to secure early action by the President in this sense in order that the Committee may proceed with its studies with explicit assurance of the Dominican Government's cooperation. It appears that there has been difficulty on the part of the Dominican Government in understanding that the establishment of official contact with the Advisory Committee does not imply an immediate decision to enact the amendment to the Emergency Law referred to in the enclosure to my despatch No. 827 of February 28, and that formal recognition of the Committee formed at this Government's request to the Fiscal Agents is now the impulse required by the Committee to begin its work.

It appears from the enclosed memorandum that the Dominican Government desires to be reassured on the point of the use of the reserve in the hands of the Special Agent for the Emergency for

³² Not printed.

meeting expenses of the Committee. I have, naturally, been unable to express myself in any way as to the idea that this reserve should be used for this purpose, since this would appear to be a matter regarding which the bondholders themselves must in the last analysis decide.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3899

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 947

SANTO DOMINGO, April 27, 1933.

[Received May 1.]

SIR: I have the honor to inform the Department that Mr. Wm. E. Dunn, Financial Adviser to the Dominican Government and Special Agent for the Emergency, is leaving Santo Domingo by air for the United States today.

Prior to Mr. Dunn's departure from the Capital yesterday for San Pedro de Macorís, where he was to take the regular commercial airplane for Miami, he informed me that in conversation with the Minister of Finance Señor Pichardo had asked him on behalf of President Trujillo to prepare a draft of legislation for consideration by the President providing for the extension of the Emergency Law "for a period of five years". The Minister of Finance, according to Mr. Dunn, said that advices had been received from the Dominican Minister of Foreign Affairs, Dr. Max Henríquez Ureña, who is now in the United States, to the effect that he was assured there would be no objection on the part of the American Government to such an extension of the Emergency Law.

In response to my inquiry whether it was intended to introduce such legislation in Congress in the immediate future, Mr. Dunn stated that he believed there was no such intention, pending the result of Mr. Dunn's forthcoming conferences in Washington with Dr. Henríquez Ureña, Mr. Despradel, the Dominican Minister to the United States, and officers of the Department of State. Mr. Dunn said that he explained to Sr. Pichardo that in his opinion there was no need at this time to extend the Emergency Law for five years since, aside from the extreme improbability that the American Government would acquiesce in such legislation, it seemed to the Financial Adviser to be unnecessary for the reason that the negotiations initiated last February by Mr. Dunn with the Fiscal Agents and the Advisory Committee would hardly be protracted to that extent and for the further reason that the efforts of the Dominican Government to modernize its revenue

system and thereby increase its income, with due regard to the Government's obligations in respect of sinking fund on the foreign debt when the latter is re-adjusted, would render unnecessary the continued use of the Emergency Fund for so long a period.

I consider it probable that President Trujillo has indeed given consideration recently to the possibility of securing legislative authority that would permit the Government to continue the enjoyment of the benefits afforded by the Emergency Law for another five years. That period of time would coincide more or less with the next Presidential term. As already reported, General Trujillo has just announced his acceptance of renomination, amounting to re-election, in the Presidential campaign of 1934. It seems at least doubtful, however, that we would be well-advised to acquiesce in an extension of the Emergency Law for a further five years, since such acquiescence and the enactment of legislation to that end at this time would probably remove any incentive the Dominican Government now has for undertaking negotiations with the bondholders looking to the resumption of sinking fund payments on the foreign debt and for a reasonably thorough re-organization of its revenue system in contemplation of the resumption of those payments.

The Dominican Government is now well aware that its enjoyment of the income received through the operation of the Emergency Law has been wholly dependent upon its good faith in endeavoring to put its financial house in order during the emergency period. It seems certain, however, that if we should acquiesce now in legislation that would frankly permit the enjoyment of that income for so long a period as the one suggested, regardless of the consent of the bondholders and of the obligations of the Convention of 1924, a situation would be created in which all semblance of ordered financial and fiscal administration in the Dominican Republic would speedily disappear. The political consequences of such a state of affairs can be easily conjectured, both in the domestic and the international aspects of the question.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3904

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] May 1, 1933.

Mr. W. E. Dunn, Financial Adviser to the Dominican Republic, came in. Mr. McGurk³³ was present. Mr. Dunn said he had come

³³ Joseph F. McGurk, of the Division of Latin American Affairs; Assistant Chief of the Division from August 28, 1933.

to Washington in an effort to get the Dominican plan for dealing with the financial situation of that country "back on the track again." Mr. Dunn said nothing had been done for some time about getting the preliminary steps under way for the formation of the Bondholders Committee, that Mr. Max Henríquez, the Dominican Minister for Foreign Affairs, was here in Washington, and Mr. Dunn hopes through conversations with him and the Fiscal Agents in New York to get things under way again.

Mr. Dunn said that he felt the principal reason why the Dominican Government had not gone ahead was uncertainty as to the attitude of the new administration in Washington. Mr. Dunn said that he had told the Dominican officials that the plan outlined in the Dominican Government's letter to the Fiscal Agents, a copy of which was transmitted to the Department by the Dominican Legation on December 24, 1932,³⁴ was the only one they could follow, and that they should go ahead with it. I told Mr. Dunn, in order that there should be no misunderstanding of the Department's position, that the Department had expressed no view whatsoever regarding this plan. As to the attitude of the new administration, I told Mr. Dunn frankly that as yet no consideration had been given by the new administration to this Dominican situation.

E[DWIN] C. W[ILSON]

839.51/3905

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] May 10, 1933.

Mr. Dunn came in again. He spoke at some length about his "dilemma." This consists in the fact that the small committee in New York on which Munro and Cumberland are willing to serve, will not go ahead with its work until it has been recognized by President Trujillo. Trujillo, in a desire to do nothing which might offend the new administration in this country, is unwilling to recognize the committee until he has some assurance that this will be unobjectionable to the United States Government. The affair is on a dead center and the budget for 1934 must be introduced in Congress when it meets in August of this year. The Emergency Law expires this year and Mr. Dunn said it is obviously impossible for the Dominican Republic to begin paying two million dollars in sinking fund next year. Therefore provision for sinking fund on the external debt will have to be omitted from the budget and legislation introduced shortly providing for an extension of the Emergency Law. Mr. Dunn said that if it

³⁴ *Ante*, p. 620.

had been possible to proceed along the lines of the plan laid down in the Dominican Finance Minister's communication of December 24, 1932, to the Fiscal Agents, the informal committee in New York would have been constituted and would have gone ahead with its work, and doubtless would have rendered a report by this time to the bondholders pointing out the obvious impossibility for the Dominican Republic to resume sinking fund payments next year. However, President Trujillo, in his desire not to move until assured that there was no objection from the new administration, had held matters up. Dunn hoped that when he returned to Santo Domingo he would be able to get Trujillo to recognize the committee, but this would still take some time and he felt it would probably be necessary to introduce legislation for an extension of the Emergency Law before the committee had rendered a report on the situation. There was talk in the Dominican Republic of extending the emergency for five years, but Dunn had argued against this and had urged that it be not extended beyond one year.

I told Mr. Dunn that I appreciated his difficulties. However, there was nothing I could add to what I had said in our conversation on May 1. The Dominican Legation on December 24, 1932, had transmitted to the Department a copy of the Government's letter to the Fiscal Agents setting out the program it was proposed to follow; the Department had acknowledged receipt of this communication but had made no comment on it one way or the other. As for the attitude of the new administration, as I told him before, no consideration has yet been given by officials of the new administration to this situation.

Mr. Dunn spoke of his new contract with Trujillo under which he would receive a bonus if the negotiations with the bondholders resulted successfully. He said he understood there had been some criticism as to the propriety of such a clause and that he proposed to abandon it. I said that I was very glad to hear this.

Mr. Dunn said that he wished very much that he could get some expression from the Secretary regarding the Dominican Government's program and inquired if I would have any objection if he tried to see the Secretary personally. I said that I had not the slightest objection.

E[DWIN] C. W[ILSON]

839.51/3905a

*The Secretary of State to the Minister in the Dominican Republic
(Schoenfeld)*

[WASHINGTON,] May 13, 1933.

DEAR MR. SCHOENFELD: I take pleasure in introducing to you, by this letter, Mr. Joseph E. Davies, who is leaving Washington today for

Santo Domingo. Mr. Davies has been asked by President Trujillo to come to the Dominican Republic and look into the financial situation with a possibility that Mr. Davies will be appointed attorney for the Dominican Government in connection with such matters.

Any assistance and courtesies which you can properly extend to Mr. Davies, whom I have known for many years, will be much appreciated.

Yours sincerely,

CORDELL HULL

839.51/3906 : Telegram

The Minister in the Dominican Republic (Schoenfeld) to the Secretary of State

SANTO DOMINGO, May 22, 1933—10 a. m.
[Received 10:50 a. m.]

24. Your personal letter May 13. Mr. Davies yesterday informed me that he had concluded an agreement with the Dominican Government to act as General Counsel for them in financial and related matters. The President confirmed this information. Mr. and Miss Davies leave by air tomorrow morning.

SCHOENFELD

839.51A/247

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

No. 1010

SANTO DOMINGO, June 3, 1933.
[Received June 7.]

SIR: I have the honor to refer to my despatch No. 982 of May 22³⁵ reporting a conversation with President Trujillo on the night of May 21 with regard to the status of Mr. William E. Dunn, Financial Adviser to the Dominican Government. The Department will recall that in that conversation the President informed me of his intention not to renew Mr. Dunn's contract upon its expiration next month.

In a brief audience I had with President Trujillo on yesterday for the purpose of paying my respects before leaving Santo Domingo on leave of absence, I referred to our conversation regarding the Financial Adviser and suggested to the President that to avoid possible injustice to Mr. Dunn, who would doubtless have to make personal arrangements accordingly, Mr. Dunn seemed to be entitled to receive direct advice from the Dominican Government if it were really decided not

³⁵ Not printed.

to renew his contract. The President made no comment on this point but stated that before my forthcoming departure he intended to send me further information on the subject.

I venture to set out in the present despatch, as of possible interest to the Department, a few general considerations which seem pertinent to this matter, in view of the background, development and present apparent status of the Financial Adviser's relation to the Dominican Government.

Mr. Dunn, though possessing no official representation on behalf of the United States Government, was recommended for the post of Financial Adviser in the Dominican Republic by the Department of State. Any impulsive or ill-considered action with regard to Mr. Dunn on the part of the Dominican Government would, therefore, seem to involve our Government to the extent that any American employed by a foreign Government on the recommendation of our Government may possess in any degree even a quasi-representative character. It may be suggested that in view of the circumstances of the Financial Adviser's original employment here and the imperative need of the Dominican Government for such professional advice as he was equipped to give, both at the time of his employment and continuously since then, there was a special responsibility upon the incumbent of that post through his personal efforts to create for himself a position of such prestige that the Dominican Government would rely upon him exclusively and confidently for guidance in financial and fiscal matters. It may be suggested also that the present frame of mind of President Trujillo as set forth in my despatch above-mentioned indicates that Mr. Dunn failed to establish his prestige on sufficiently solid foundations to warrant such exclusive and confident reliance. Perhaps no foreigner in the Financial Adviser's position could have established such unquestioned prestige, given . . . the strong nationalistic feeling of members of the Dominican Government. Nevertheless, there is no doubt, in my opinion, and I consider the opinion amply supported by the record, that the Financial Adviser has been largely responsible for the very substantial improvement in the financial condition of the Dominican Government, with all this implies, between the date of his arrival and the present time. I believe the record shows that his services have made possible in great measure General Trujillo's present reputation as a Dominican President who has had special success in financial and fiscal administration. It may be said, therefore, that Mr. Dunn is entitled to special consideration from the Dominican Government not only in respect of his quasi-representation of the American Government but in respect of the inherent merits of his work here.

Judging from the files of this Legation, it is recalled that until my own incumbency of the Mission accurate information regarding the financial and fiscal operations of the Dominican Government seems not to have reached the American Legation or the Department of State promptly or completely. The fact that the Legation has been able to follow financial and fiscal developments fairly closely and with a considerable degree of accuracy since October, 1931, with the necessary result that our work in relation to Dominican affairs has been greatly facilitated, is largely due to the assistance rendered by the Financial Adviser in this respect. Doubtless, this circumstance might not redound to the merit of the Financial Adviser in the eyes of the Dominican Government, although the data supplied to the Legation from time to time by the Financial Adviser were supplied with the original consent and by the direct authority of President Trujillo in pursuance of an understanding reached between the President and myself to that effect immediately after my arrival here in October, 1931. These circumstances however, would seem to give Mr. Dunn a claim upon the special consideration of our Government.

Since the employment by the Dominican Government of Mr. Joseph E. Davies as counsel in financial and related matters last month, President Trujillo has seemingly come to believe that he can afford to dispense with the services of a Financial Adviser performing the duties which Mr. Dunn has performed. This inference is drawn from the time and circumstances of the conversation reported in my despatch above-cited. The employment of high priced counsel in the person of Mr. Davies seems entirely justifiable from the standpoint of the Dominican Government, which may hope that counsel so retained . . . will make unnecessary the continued employment of a technical adviser of Mr. Dunn's qualifications, likewise involving a substantial disbursement. Nevertheless, there is, in my view, some question that counsel operating mostly in the United States, as Mr. Davies doubtless expects to do, can efficiently perform the complementary and equally necessary duties that seem to be required at this end to insure consistent and intelligent progress. In fact, it would seem to be in the interest of such counsel in the United States to be represented in the Dominican Republic by a man of substantially the same qualifications as those possessed by Mr. Dunn, if the present Financial Adviser should cease to be employed.

It is also true that the President has long felt and so stated to me as early as December of 1931, that the presence here of a foreign official performing Mr. Dunn's duties was politically embarrassing to him. I have no reason to doubt that it was considered embarrassing in the same sense as, and only in less degree than, the existence of the General Receivership of Dominican Customs and the treaty relations be-

tween the Dominican Republic and the American Government have been and are still considered politically embarrassing to this Government.

Regardless of this particular circumstance, however, consideration must be given to the interests of the holders of Dominican external bonds and to the treaty relations between our Government and that of this Republic.

So far as the interests of the bondholders are concerned, it seems obvious that the longer the present emergency status continues, the more difficult it will be to make adequate arrangements for the resumption of substantial payments for sinking fund on the foreign debt on an agreed basis that will be fair both to the Dominican Government and to the holders of the bonds.

So far as our treaty relations with this Government are concerned, the earliest possible return to a prescribed and legal procedure sanctioned by treaty is patently in the best interest of the American Government, which assumed certain definite obligations under the Convention of 1924 and the loan contracts concluded under the authority thereof, as well as in the interest of the Dominican Republic for whose stability the Convention has constituted a foundation the importance of which is recognized by many patriotic Dominicans. Our acquiescence in the Dominican Government's radical departure from the practice of the Convention through the Emergency Law was clearly based upon a showing of the most pressing necessity and arose out of the compelling conditions of that time. That acquiescence did not imply abandonment of the Convention by the American Government. But continued acquiescence in admitted treaty violation by this Government for any substantial period of time after the emergency shall have passed would necessarily imply such abandonment and would involve us, as well as this Government, in the violation of an international treaty. Hence, a return to the full practice of the Convention and compliance with the loan contracts or the negotiation of new loan contracts revised to meet changed conditions, possibly involving the elaboration of a new Convention, can probably not be long deferred.

I believe that the Financial Adviser to the Dominican Government rarely, if ever, lost sight of these two fundamental factors and it is probable that his present difficulties are largely due to differences between his employers and himself as to how these fundamentals should be treated in formulating the policy of the Dominican Government. . . .

At first glance, perhaps, the fact that President Trujillo, may now intend to have no American in the Dominican Republic, after the expiration of Mr. Dunn's contract, who will be in a position to perform the duties the Financial Adviser has been performing, does not appear

to be a matter involving much more than the relations between Mr. Dunn and his employers. But this is evidently a superficial view to take. Rather, it seems clear that President Trujillo is really unaware of the implications of his proposed course of procedure or that, if he is aware of these implications, he hopes the American Government may overlook them. It may be deemed desirable, therefore, if the Department concurs in the foregoing analysis of the situation, to make an informal statement to the Dominican Government on the subject. In view of my forthcoming departure on leave of absence there is no time for me to receive before I leave an expression of the Department's considered views and the corresponding instructions, but if the line of thought above set forth commends itself to the Department, it may be found expedient to communicate it orally or otherwise to the Dominican Minister at Washington in the near future.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3915

Memorandum by Mr. Joseph F. McGurk of the Division of Latin American Affairs

[WASHINGTON,] June 14, 1933.

Conversation: Mr. Joseph E. Davies, Counsel in Financial Matters to the Dominican Government

Mr. Jefferson Caffery

Mr. H. F. Arthur Schoenfeld

Mr. E. C. Wilson

Mr. McGurk

Mr. Davies said that he had been in New York yesterday to consult with the fiscal agents and that he had had a very satisfactory interview with them. He said that they seemed willing to aid in any way they could in the present financial situation in the Dominican Republic. Mr. Davies said that he realized that there would be considerable physical difficulty in getting the bondholders together and that the Fiscal Agent had suggested that the banks paying the coupons might be able to obtain the names of those cashing the coupons as the bonds were all bearer bonds and not listed. He thought that this could be done but it would take considerable time. Mr. Davies then went on to say that in the meanwhile it would be necessary for the Dominican Government to obtain an extension of the present emergency law in order for the Government to carry on its construction program and to maintain law and order. Mr. Davies argued strongly that a complete moratorium on sinking fund payments for not less than four years

should be included in the proposed extension of the emergency law. Mr. Caffery said that a four year moratorium on sinking fund payments would not be well received here. Mr. Davies supported his contention on the general ground that this was an era of consideration for debtors and that with a strong and honest government like that of President Trujillo the bondholders would be satisfied to receive their interest and were not concerned about the effects of delay in amortizing the external debt. Mr. Davies dwelt for some time on the excellent impression he had received of the personal qualities of President Trujillo, the Dominican Minister of Finance and of other Dominican officials, emphasizing their honesty, sincerity and patriotism, the President's personal ability as a business man, the impressive program of public works that was being carried out, the President's insistence upon rigid control of the public funds and in general that the Dominican Government was entitled to full confidence. Mr. Davies intimated that in any event if President Trujillo decided to extend the emergency law and to suspend completely all sinking fund payments, there was no likelihood of serious objection being made by the American Government, or at least that such objection would take the form of coercive action. Mr. Davies believed the President was conscious of this state of affairs and might therefore act accordingly if it became necessary. Mr. Davies even suggested that the Dominican Government might find it necessary to suspend interest payments although President Trujillo had strongly stated his intention at all costs to maintain interest payments and the high credit standing of the Dominican Government. Mr. Caffery then stated that he felt sure that it was the policy of this Administration to aid in every way possible the efforts of the Dominican Government to carry on through the present situation, but he felt that every effort should be made to put an end to the present extra-legal status and restore it to a legal basis under the Convention. . . .

Mr. Davies then mentioned the subject of a new convention or a supplementary convention to the present one. He was not at all certain as to how this could be worked out as he was not entirely familiar with the subject and said that he would make a study of it. Mr. Caffery then referred to the law creating the Corporation of Foreign Bondholders and asked Mr. Davies whether he thought the provisions of this law would cover the Dominican situation. Mr. Davies said that it was not clear to him whether the provisions would cover the situation, but if it did it would probably obviate the necessity of carrying forward the project of negotiations with the bondholders through the present fiscal agents.

[JOSEPH F.] MCGURK

839.51A/255

The Chargé in the Dominican Republic (Brown) to the Acting Secretary of State

No. 1036

SANTO DOMINGO, June 22, 1933.

[Received June 26.]

SIR: I have the honor to inform the Department that Mr. Oliver Peck Newman, who is to succeed Mr. William E. Dunn as Special Emergency Agent, and probably also as Financial Adviser, of the Dominican Government, arrived in Santo Domingo on June 20, 1933, accompanied by Mrs. Newman. I understand that Mr. Newman brought with him a letter from President Roosevelt to President Trujillo, in which the former expressed his best wishes to the latter.

In the evening of June 17, the Acting Minister of Foreign Affairs, Lcdo. Logroño, informed me during an informal conversation of the coming arrival of Mr. Newman to take over Mr. Dunn's position. Lcdo. Logroño said that Mr. Dunn's contract will expire on June 30, 1933, and will not be renewed. He mentioned that Mr. Newman is a personal friend of President Roosevelt, has visited him at the White House, was at one time Commissioner of the District of Columbia and was recommended in a letter signed by the Secretary of State, and that he believed Mr. Newman could not be more highly recommended.

Lcdo. Logroño told me that this information is the information that President Trujillo hoped to be able to give Minister Schoenfeld before the latter's departure on vacation on June 6 (See second paragraph of Minister Schoenfeld's despatch No. 1010 of June 3, 1933), but that the President did not receive it until after Minister Schoenfeld's departure. I have reason to believe that President Trujillo received the information by steamer mail which arrived in Santo Domingo on the morning of June 12. The remarks made by Lcdo. Logroño on June 17 served to confirm fairly conclusive rumors received by the Legation a few days previously in regard to the coming arrival and appointment of Mr. Newman.

Early in the morning of June 21 Mr. Newman called at the Legation. During a conversation on general topics, Mr. Newman said that while serving on the Board of Commissioners of the District of Columbia during the administration of President Wilson it had fallen to his lot to supervise taxation and financial matters. Such experience will, of course, be of advantage to him in his duties here. He said that he does not know Mr. Dunn, but that he believed Mr. Dunn had had conversations with Mr. Joseph E. Davies, legal counsel to the Dominican Legation at Washington. Mr. Newman added that he has known

Señor Ulises F. Espailat³⁶ and the other diplomatic officers of the Dominican Legation at Washington since February of this year.

A contract between the Dominican Government and Mr. Newman, similar to the contract between the Dominican Government and Mr. Dunn, is being drawn up.

Mr. Newman plans to go back to Washington, leaving here June 27, and to return to Santo Domingo in about a month.

Respectfully yours,

JAMES E. BROWN, JR.

839.51/3920a

The Acting Secretary of State to President Roosevelt

[WASHINGTON,] July 19, 1933.

MY DEAR MR. PRESIDENT: Referring to the conversation we had this morning regarding Dominican loans and the responsibility of the United States Government towards the bondholders, I am sending you herewith a copy of a memorandum entitled "Dominican Situation" which, I believe, is self-explanatory.

Of course, if you decide to proclaim the formation of the Corporation of Foreign Bondholders,³⁷ that body, if appealed to, will be able to act as an intermediary between the Dominican Government and the American bondholders.

Faithfully yours,

WILLIAM PHILLIPS

[Enclosure—Memorandum]

JULY 19, 1933.

DOMINICAN SITUATION

If the Dominican Government believes it necessary to approach the U. S. Government regarding an extension of the Emergency Law,* before it is possible to set up a bondholders committee and obtain the consent of the bondholders, then there must be a showing of absolute necessity. Any such proposal should be accompanied by an objective study of the present financial situation and the possibilities—or im-

³⁶ Counselor of the Dominican Legation at Washington.

³⁷ On a photostatic copy of the original letter in the Department's files there appears in the margin at this point the following penciled comment: "in a couple of weeks F. D. R."

*This law went into effect October, 1931, and provides in effect for diversion of Sinking Fund payments on the foreign loans to current running expenses of the Government. It was caused by the drastic decline in governmental revenues. It expires December 31, 1933. [Footnote in the original.]

possibilities as the case may be—of resuming Sinking Fund payments at this time. Such study should be prepared by persons recognized as competent and impartial.

Any such proposed extension should be for only a short period, say, one year, which would give time to organize bondholders and obtain their consent.

The U. S. Government has definite obligations towards the bondholders. Bonds outstanding were issued on the strength of the customs receivership provided for by treaty between the U. S. Government and the Dominican Government.

DOMINICAN BONDS

The loan contracts under which the Dominican bonds were issued provide that one issue of the bonds is to be retired in 1940 and the other issue in 1942. Any extension of this date of final payment made without the consent of the bondholders would, of course, be a breach of contract. If the Dominican Government desires to extend the date for final payment, it should negotiate with the bondholders. Unilateral action by the Dominican Government without first obtaining the consent of the bondholders would place the U. S. Government in an embarrassing situation in view of our obligations to the bondholders.

839.51/3930

The Minister in the Dominican Republic (Schoenfeld), Temporarily in the United States, to the Acting Secretary of State

FAIRLEE, VERMONT, July 29, 1933.

DEAR MR. SECRETARY: I have not heard what progress has been made recently in the Dominican debt re-adjustment program. But I recall that the Dominican Emergency Law expires by limitation at the end of this year. It appears that the Dominican Government does not plan to wait very long before extending the Emergency Law, perhaps for several years, and so amending it as to increase the amount of customs revenue to be diverted from debt service to current expenses, the Convention and the loan contracts to the contrary notwithstanding. Meanwhile, the surplus accumulated in the Emergency Fund is approaching half a million dollars; but there seems to be no intention to apply the surplus to amortization of the funded debt, the indications being that when the Emergency Law is amended the surplus will also be used for expenses.

The fact that there have been few, if any, recent expressions of our policy on the international aspects of the Dominican debt problem has disappointed, though I think it has not discouraged, the Domin-

ican Government. They seem to have realized that our Government has been preoccupied with questions of greater importance to us. But even before I left Santo Domingo it was pretty clear that they expect us to give them a lead without much more delay. It is also a fair inference from our knowledge of President Trujillo's energetic character that, if our attention is not soon directed to his problems in so far as they involve ourselves, he is quite capable of creating a situation that would demand attention and that we, perhaps, would have preferred not to see created.

Assuming that the Department is not ready at this time to undertake the fundamental revision of the Convention as desired by the Dominican Government, my feeling about a practicable settlement is that it could probably be found along the lines of reducing the interest rate, restoring payments into the sinking fund at a considerably lower rate than that on which there has been default, stipulating for the application of a prosperity index to the amortization rate and putting the service of the debt back in the hands of the General Receiver of Dominican Customs as provided in the Convention. The forthcoming setting up of the Corporation of Foreign Security Holders will doubtless have a bearing on the problem; but the official character of that Corporation created under the Securities Act of 1933³⁸ will make it all the more necessary to keep in mind, in the Dominican re-adjustment, the Treaty obligations of our Government.

In any case, we seem to be getting to the point where our course will probably have to be charted again in the light of conditions that have changed a good deal since the Department last took its bearings, nearly two years ago.

When I return to Santo Domingo, I should like if possible to do so with a clear perception of our considered policy there and particularly with precautions taken against any crossing of wires in representing that policy to the Dominican Government. I have not had the honor of meeting either the President or the Secretary of State, whose directions I should be more than glad to have before starting on a new tour of duty in Santo Domingo. If you think that my coming to the Department on temporary detail before going back to my post would serve a useful purpose, I shall hold myself ready to act on instructions to that effect, instead of sailing for my post when my leave expires on August 15th.³⁹

Believe me [etc.]

H. F. ARTHUR SCHOENFELD

³⁸ 48 Stat. 92.

³⁹ The Acting Secretary of State on August 4 informed Mr. Schoenfeld that it would be helpful if he would come to the Department for consultation on Dominican affairs upon expiration of his leave August 15, before returning to his post.

839.51/3953

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

[WASHINGTON,] August 16, 1933.

Conversation: Mr. Oliver P. Newman, Financial Adviser and Special
Emergency Agent of the Dominican Republic

Mr. Caffery

Mr. Schoenfeld

Mr. E. C. Wilson

Mr. Newman referred to the fact that the emergency legislation expires December 31, 1933, and expressed the hope that the President might proclaim title II of the Securities Act setting up the Corporation of Foreign Security Holders, so that the Dominicans might take their external bond problem to that organization. In the event of delay in setting up the Corporation, he inquired whether it would be advisable for him, representing the Dominican Government, to sit down with the Department and work out a comprehensive program for dealing with the Dominican situation.

Mr. Caffery said that he felt this would be the wrong approach. The Dominican Government should deal with its bondholders first and come to the Department only after having obtained the bondholders' consent. Of course if there should be delay in setting up a bondholders representation and we arrived close to the date of January 1 without the Dominicans having been able to deal with the bondholders, then it is conceivable that the Dominican Government might feel it necessary to approach the Department with a proposal, after a showing of absolute necessity, that the present emergency legislation be extended a very short period, say six months or a year, in order to afford opportunity to obtain a bondholders representation and discuss the matter fully with them.

Mr. Caffery called attention to the existence of the large surplus of over \$500,000 in the emergency fund and to the provisions of the Emergency Law that any surplus in the fund should be transmitted to the Fiscal Agents for sinking fund purposes. It was mentioned that the Department had received inquiries concerning this matter, and also that the Department had called it to the attention of Mr. Dunn, Mr. Newman's predecessor. Mr. Newman said that his thought had been to carry on this surplus as a segregated fund until such time as a solution of the Dominican problem, in agreement with the bondholders, had been reached. However, if the Department attached importance to this point, he would take it up with the Dominican Government. Mr. Caffery said that he felt the matter was important, and that it should be considered by the Dominican Government.

E[DWIN] C. W[ILSON]

839.51/3932a

*The Secretary of State to the Chargé in the Dominican Republic
(Brown)*

No. 199

WASHINGTON, August 25, 1933.

SIR: On the return of the Minister to Santo Domingo, you will please bring the following to his attention:

It has been noted in the statement submitted by the Legation concerning the operations of the emergency fund established under the Emergency Law of October 23, 1931, that a considerable surplus has accumulated, amounting, according to the last report, to approximately \$500,000.

Article 6(d) of Emergency Law No. 206 of October 23, 1931, provides:

"Any surplus of customs revenue after the said amount shall have been paid and applied to the purposes mentioned in this Article shall be turned over by the Special Emergency Agent to the Receiver General of Customs to be applied to the payment of the monthly amortization installments on the external bonds of the Republic."

The Department's records indicate that no action under Article 6(d) of the Emergency Law has been taken since September, 1932, when the sum of \$50,000 was remitted for the amortization account. The Department desires that the Minister should bring this situation in an appropriate manner to the attention of the Dominican Government.

Very truly yours,

For the Secretary of State:
JEFFERSON CAFFERY

839.51/3935

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 1139

SANTO DOMINGO, September 2, 1933.

[Received September 7.]

SIR: I have the honor to enclose for the Department's strictly confidential information copy of a memorandum of a conversation I had with President Trujillo this morning.⁴⁰

I invite the Department's attention especially to those parts of the memorandum dealing with the possibility of the remittance of the Fiscal Agents for Dominican loans, through the General Receiver, of at least a substantial portion of the surplus accumulated in the hands of the Special Emergency Agent under the Emergency Law.

⁴⁰ Not printed.

President Trujillo's attitude throughout our conversation today was cordial and friendly but towards the end of our talk it was evident that my suggestion regarding the remittance of the surplus in the Emergency Fund gave him concern. I have been unable in the short time since my return to my post to ascertain the precise extent of the obligations the Government has undertaken for the proposed construction of public works. These obligations may be greater than would be warranted by the most prudent estimate of the income on which the Government can definitely count in the remaining months of this year and during the ensuing fiscal year beginning January 1, 1934.

I have learned, however, that in the preliminary formulation of the budget for 1934 the estimate of revenue definitely includes a contribution of \$1,500,000 into the General Fund from the customs revenue. In other words, it would appear that the Government is counting upon the extension of the Emergency Law in its present form, if not in a form still more advantageous to the Government, for the ensuing fiscal year.

I need not remind the Department that the Emergency Law of October, 1931, expires by limitation at the end of the current fiscal year on December 31 next. I understand that the budget of the Dominican Government for the next fiscal year, 1934, is now receiving final consideration by the Budget Committee. It may be expected, therefore, that the Government will soon show a pressing desire to know whether it will be able, without objection from the bondholders or from the American Government, to include in its estimate of revenue for the General Fund for next year the million and a half dollars received for that purpose through the operation of the Emergency Law in the current and during the last fiscal year. We can not be unmindful, on the other hand, of the substantial extra-budgetary income of the Government derived from such sources of revenue as the 10% deduction from salaries, the consumption taxes on rice and sugar and perhaps other revenue sources. These extra-budgetary items of income are, of course, subject to the direct control of the President of the Republic and though, in some cases, the yield from these sources has been allocated by law to specific purposes such, for instance, as the reduction of the floating debt, they are not subject to public scrutiny and to the control attendant upon knowledge of disbursements from them.

As bearing upon the general financial position, it may be appropriate to report that the appointment, effective yesterday, of the new Secretary of State for Finance, Dr. Tulio M. Cestero, has been received here with satisfaction, not because of any special financial knowledge on the part of Dr. Cestero, who has been mainly employed as a diplo-

matic representative for some years past, but rather because, as a result of his diplomatic experience, it is thought he will have broader views than his immediate predecessor as to the international aspects of the Dominican Government's financial problem and will be better able to deal with it in so far as it has a diplomatic character. The Legation shares this opinion and is hopeful that, as the new Minister of Finance becomes acquainted with the details of the problems arising out of the Emergency Law of 1931 and their bearing upon the conventional relations between the United States and the Dominican Republic, any negotiations that may be undertaken in connection with these matters will be facilitated by the new Minister's personal qualities and experience in the conduct of international affairs.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3934 : Telegram

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

SANTO DOMINGO, September 6, 1933—1 p. m.

[Received 5 : 55 p. m.]

35. Department's instruction No. 199 of August 25, 1933. As reported in my air mail despatch 1139, September 2, which was mailed prior to receipt yesterday of your instruction referred to, I spoke to the President of the Republic informally September 2 regarding expediency of remitting at least substantial portion of surplus in the emergency fund for amortization. Today in conversation with the Minister for Foreign Affairs ⁴¹ I referred to my conversation with the President and said I had now been directed to make representations on this subject but that if I should receive assurances that spontaneous action would be taken by the Dominican Government in the near future I would refrain from making official representations at this time. The Minister for Foreign Affairs said that the matter was now receiving earnest consideration of the Government and that he thought favorable action would be taken within one week. The Minister did not indicate what the amount of the remittance would be if made but I made it plain to the Minister for Foreign Affairs today.

[SCHOENFELD]

⁴¹ Arturo Logroño, appointed Dominican Secretary of State for Foreign Affairs, September 1, 1933.

839.51/3942 : Telegram

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

SANTO DOMINGO, September 13, 1933—1 p. m.

[Received 5:42 p. m.]

37. My telegram No. 35, September 6, 1 p. m. I asked the Minister for Foreign Affairs today when the Government might be expected to take a decision regarding a remittance from surplus in the emergency fund for amortization on the funded debt. The Minister told me that a decision would probably be taken in the next day or two. He added that the Dominican Minister to the United States, who arrived here this morning by air, had brought with him a financial plan which Minister for Foreign Affairs said had received the personal approval of the Secretary of State at Washington. The Minister for Foreign Affairs was not informed as to the details of this plan as he had not yet seen Despradel who was in conference with the President but he mentioned that a telegram had recently been received from Newman, Financial Adviser, to the effect that all "desiderata" of the Dominican Government had been obtained.

SCHOENFELD

839.51/3942 : Telegram

*The Secretary of State to the Minister in the Dominican Republic
(Schoenfeld)*

WASHINGTON, September 15, 1933—7 p. m.

25. Your 37, September 13, 1 p. m. When Mr. Newman called on me recently he stated that the surplus is available and ready at all times to be turned over for amortization purposes but that the Dominican Government was desirous as soon as opportunity arose to proceed with the refunding plans in the hope that eventually it might be able to utilize some of the present surplus for emergency internal improvement purposes.

I made no commitment whatever but stated that I believed the Dominican Government should at once, on its own initiative, make a substantial remittance from the surplus in the emergency fund for amortization purposes.

No "financial plan" was submitted to me and, therefore, I did not approve one.

HULL

839.51/3945

*The Minister in the Dominican Republic (Schoenfeld) to the
Secretary of State*

No. 1167

SANTO DOMINGO, September 15, 1933.

[Received September 18.]

SIR: Confirming my telegram No. 38 of today,⁴² I have the honor to enclose for the Department's strictly confidential information copy with translation of a note under today's date from the Minister of Foreign Affairs stating the decision of Dominican Government with regard to the application of the surplus in the so-called Emergency Fund of the Dominican Government. I am acknowledging receipt of this note without comment, pending the receipt of instructions from the Department.

H. F. ARTHUR SCHOENFELD

[Enclosure—Translation]

*The Dominican Secretary of State for Foreign Affairs (Logroño) to
the American Minister (Schoenfeld)*

No. 612

SANTO DOMINGO, September 15, 1933.

MR. MINISTER: With reference to the inquiry which Your Excellency made of me regarding the application of the surplus under the Emergency Law No. 206, I am to advise Your Excellency in pursuance of precise instructions from the Honorable President of the Republic, Generalissimo Rafael L. Trujillo M., that the decision of my Government on the subject is as follows:

"At present negotiations are pending, of which Your Excellency's Government has knowledge, whereby the Dominican Republic is seeking a method of attaining a re-adjustment of its external debt upon a permanent basis by means of the prorogation of the moratorium provided in the Emergency Law. Efforts are being made to hasten these negotiations and they will be concluded long before the termination of the present Emergency Law. The surplus which has been accumulated is intact and is held as a trust fund. This fund will be applied in accordance with the provisions of the Emergency Law unless it be agreed, after authorization by Your Excellency's Government, to make some other disposition of this fund if this should benefit the holders of bonds of the Dominican Republic. But, in view of the fact that the holders of bonds are not complaining, nor requesting that the accumulated fund be destined to the liquidation of these bonds, and in view also of the fact that if these bonds are bought in the open market at present this would involve a loss of 40 to 50% of their original cost, and particularly in view of the

⁴² Not printed.

probability that we shall agree within a short time upon a plan which will establish that this debt be placed upon a permanent and secure basis in the interest of the holders of the bonds and in the interest of protecting the credit of the Dominican Republic, my Government is of opinion that it is not advisable to apply or destine the accumulated surplus to the retirement of these bonds at this time, and deems it more convenient to retain it intact and as a trust fund, in order to dispose thereof in accordance with the terms of the general agreement which might be reached.

In spite of this conviction, and as an indication of the desire of the Honorable President Trujillo to cooperate in all ways with Your Excellency's Government, the Chief of the Dominican State has given orders that one hundred thousand dollars (\$100,000 American currency) be now dedicated to the liquidation of Dominican bonds, in accordance with the provisions of the Emergency Law, and that the remainder continue intact as a trust fund pending the termination of the negotiations which are now being carried out for a permanent re-adjustment of the foreign debt.

The Honorable President Trujillo is deeply impressed with the solicitude of Your Excellency's Government for the protection and security of the holders of Dominican bonds who may be American citizens, and Your Excellency may assure your Government that the concern of our Chief of State is equally great, or greater, since the credit and honor of his Government are engaged in the security and final payment of this debt."

I ask you, Mr. Minister, to accept [etc.]

ARTURO LOGROÑO

839.51/3949

The Minister in the Dominican Republic (Schoenfeld) to the Secretary of State

No. 1169

SANTO DOMINGO, September 18, 1933.

[Received September 25.]

SIR: I have the honor to inform the Department that in conversation yesterday with Lcdo. Logroño, Minister of Foreign Affairs, Dr. Cestero, Minister of Finance, and Señor Roberto Despradel, Dominican Minister to the United States, with all of whom I had a confidential talk after a luncheon at the Legation, I gathered that the Dominican Government intends in the immediate future to concentrate its efforts in the direction of organizing the holders of Dominican bonds in such a way as to make it possible to negotiate with them or their representatives a modification of the contracts under which the Dominican loans of 1922 and 1926 were issued. An endeavor is apparently to be made to bring these negotiations to a successful conclusion prior to the expiration of the so-called Emergency Law at the end of this year.

As the Department is aware, there has been some confusion in the mind of the Dominican Government as a result of its desire to secure a fundamental revision of the Convention of 1924 and its hope of continuing to enjoy the benefits it now enjoys from the operation of the Emergency Law or of securing even greater benefits from the customs revenue than at present. It appears now to be possible that the question of attaining the aims of the Dominican Government with reference to the revision of the Convention is one which the Government may deem it better to defer taking up with the American Government until after a new agreement is reached with at least a substantial group of the holders of Dominican external bonds.

One of the purposes of Señor Despradel's visit in Santo Domingo is, as he stated, to guide (*orientar*) the Dominican Government's understanding of the position of the American Government in relation to the forthcoming negotiations with the bondholders and to make it plain to his Government that the attitude of the American Government in this matter was one of entire benevolence. Since, however, relatively little time remained before the expiration of the Emergency Law, Señor Despradel believed that special efforts should now be made to constitute some representative agency on behalf of the bondholders with whom this Government could negotiate. He said difficulties had been encountered in ascertaining the identity of all or even the principal holders of Dominican bonds but, with the cooperation of the Fiscal Agents, there was now hope that these difficulties would soon be overcome.

Although it seems likely that the Dominican Government does not intend in the first instance to press upon the American Government its aspirations with reference to the removal of the restrictions, represented by the Convention of 1924, upon its freedom of action in financial and economic matters, the thought of attaining a greater measure of freedom in this respect may be expected to have a prominent place in this Government's consideration of the proposed debt re-adjustment. As already frequently reported to the Department, the principal aims of the Dominican Government in this relation appear to be to secure a market in the United States for at least a substantial quantity of Dominican sugar and, on the other hand, greater liberty to control its own tariff policy with a view to the negotiation of reciprocal trade agreements, especially with European countries that now take the bulk of certain important Dominican exports.

It was emphasized yesterday by the Dominican officials mentioned that by reason of both geographic and treaty relations between the Dominican Republic and the United States, this Government had a stronger claim than other Latin American countries to special consideration on the part of the United States in the matter of opening

the American market to Dominican sugar exports. At the same time, the present limitation of the European market for Dominican sugar, chiefly to Great Britain and France, exposed Dominican economy to the hazards of arbitrary action by either of those two countries, with results that might be disastrous to the agricultural industry in this country. Since American investments in the Dominican agricultural industry are very large, such arbitrary action on the part of England or France would involve catastrophe for these American interests under present conditions.

While I did not undertake to discuss the cogency of these arguments in so far as they might justify the eventual removal of some existing restrictions of the Convention of 1924 upon the Dominican Government's freedom of action, I took occasion yesterday to express to the Dominican officials mentioned my agreement with the belief that it would be a wise policy at present to confine the principal efforts of the Dominican Government to seeking a new basis of settlement with its creditors as above outlined, rather than to dissipate any energy at this time in endeavoring to secure revision of the Convention. I said that it appeared to me to be a necessary prerequisite to any ulterior negotiations for revision of the Convention that the full practice of the Convention in respect of the collection of the customs revenue should first be resumed. I added that if a new agreement with the bondholders were concluded calling for the service of the external debt upon a revised but definite basis, the full authority of the General Receiver of Dominican Customs should be restored, without the intervention of the so-called Special Emergency Agent. I pointed out that the mechanism set up under the Emergency Law was not meant to become a permanent feature of the fiscal machinery here. I indicated that, in my opinion, the eventual success of negotiations for a revision of the Convention would be better assured by the cessation, if possible at the time the present Emergency Law expires, of the extra-legal practice which has been followed since October, 1931, involving an admittedly unilateral violation of the Convention. I said it would seem to be in the best interest of the Dominican Government as soon as possible to put an end to this extra-legal state of affairs, to return to legality under the Convention in respect of the service of the foreign debt and then to devote attention to achieving the broader diplomatic aims of the Dominican Government in an atmosphere of strict compliance with Treaty obligations.

I would add for the Department's information that I had not previously, in conversation with Dominican officials, emphasized the matter of resumption of the collection of all the customs revenue by General Receivership, simultaneously with the going into effect of a new debt agreement. My mention of it yesterday was the first

definite expression of this kind on my part and was occasioned by the development of the conversation above described. I beg leave to call the Department's attention to it at this time in the belief that, with the expiration of the Emergency Law in its present form, and with the accomplishment of the proposed debt re-adjustment on a permanent basis, the reasons of a legal nature which led to the original creation of the Office of the Special Emergency Agent could no longer be regarded as obtaining. The abolition of that Office would render possible again effective control by the General Receivership, as was the case prior to the enactment of the Emergency Law, over the collection of all the customs revenue. Such resumption would entail obvious advantages in point of administrative simplification, economy and, of course, the cessation of the extra-legal condition above referred to which is admittedly in violation of the Convention.

There is another point of importance in this relation which, in my opinion, we should be well advised to keep steadily in mind. While it may be contended that, if negotiations for a re-adjustment of the external debt are now to be undertaken directly with the holders of Dominican bonds, the responsibility of our Government under the Convention is strictly confined to the collection of the customs revenue and its application as may be stipulated in the old or in new loan contracts, our Government's acquiescence in the original enactment of the Emergency Law was based upon a showing of necessity on the part of the Dominican Government. In the intervening time, as is well known, new Dominican taxes have been created and are apparently being collected in substantial amounts, aside from the increased yield of certain old taxes through improved administration. Either the bondholders or our Government may therefore properly require a renewed showing of necessity to warrant the "permanent" re-adjustment now being sought. In the Dominican note of September 15, 1933, transmitted with my despatch No. 1167 of that date, there is a clear intimation of the desire of the Dominican Government for a further partial or complete "moratorium" in amortization payments on the funded debt. If the proposed re-adjustment of the debt does not contemplate a complete "moratorium" but involves only the downward revision of the amortization rate on a "permanent" basis, the question arises of the indefinite continuance of the life of the Receivership, to which reference was made in the Department's note of October 23, 1931, to the Dominican Legation at Washington.⁴³ It would seem to be important, consequently, before the Department could express itself favorably or unfavorably as to any new agreement between the Dominican Government and the bondholders, to ascertain not only the exact amount the Dominican Government is deriving

⁴³ *Foreign Relations*, 1931, vol. II, p. 131.

from both budgetary and non-budgetary sources of income, but also the items of disbursement to which that income is being and would be applied, including such items as floating debt reduction.

In this connection, I sounded the Minister of Finance yesterday as to the possibility of his providing me with the figures of extra-budgetary income and disbursement of the Dominican Government during the current fiscal year. No statistics on this subject are in my possession and, at the same time, it is known that the extra-budgetary income of the Government will this year attain very substantial proportions, estimated at in excess of \$600,000. The Minister of Finance indicated that this information would be made available but I shall continue my efforts to obtain it. In any event, and although the good faith of the Dominican Government is by no means in question, an investigation of the actual total budgetary and extra-budgetary income and disbursements of the Dominican Government seems to be indispensable to enable the bondholders or the Department to reach a decision as to what may be a fair basis for the "permanent" re-adjustment of the external debt now contemplated by the Dominican Government.

In negotiating a new debt agreement other points of importance, bearing more especially upon the obligations of the Dominican Government and those of the United States under the Convention of 1924, would appear to be involved in such matters as the long standing evasion of Article IV of the Convention of 1924 by means of Law 190 and other laws imposing so-called internal revenue taxes upon imports; as well as the evasion, largely prior to the Trujillo administration, of Article III of the Convention forbidding increase of the public debt except with our consent. It may be suggested that the phrase "public debt" does not apply to the floating debt of the Dominican Government so long as this debt is not funded. The existing floating debt does, however, have an obvious effect upon the credit of the Government and its financial administration, and would appear to this extent to involve the article of the Convention just cited.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3983

Mr. Joseph E. Davies and Mr. Oliver P. Newman to the Secretary of State

WASHINGTON, October 18, 1933.

MY DEAR MR. SECRETARY: After careful study of the Dominican situation, it is our judgment that the Dominican Government should enact a new Emergency Law with reference to the external debt, embodying the following points:

(1) Reiteration of the general principles of the Emergency Law 1931, which specifically provides for payment of interest in full on Dominican bonds from custom revenues.

(2) Further suspension of amortization payments on principal until Dec. 31, 1937.

(3) Application of remaining custom revenues and of the present balance in the Emergency Fund to vital government requirements and specified public works to employ labor, relieve distress due to the economic crisis and forward permanent rehabilitation.

Our reasons for reaching this conclusion are:

(1) The Emergency Law of 1931 (which expires Dec. 31, 1933) has proven inadequate to meet the crisis for which it was created.

It has enabled the Dominican Government to live. Without it, chaos would have resulted. Its deficiency is its failure to provide funds for necessary repair or replacement of equipment with which to conduct government in a physical sense. Depreciation in roads, bridges, buildings, wharves, railways, etc., has advanced rapidly. Substantial expenditures to off-set such depreciation are imperative.

As all of the allotment of \$125,000.00 per month under the Emergency Law of 1931 is necessary to complete requirements for salaries and routine government expenses, additional funds must be made available for repair and replacement or worn out roads, structures and equipment. These expenditures are necessary to the economic life of the people—the ordinary transaction of business, the flow of commerce, the movement of people, merchandise and crops, and the rehabilitation of the country.

Under existing estimates all that the Dominican government can receive from future custom revenues, above the monthly allocation of \$125,000. referred to, will be about \$35,000. per month.

(2) The continuation of the world depression has caused consequent continuation of diminished Dominican revenues.

Total revenues decreased from about \$15,000,000. in 1927 to about \$7,000,000. in 1932. Of these custom revenues decreased from \$5,900,000. to \$2,700,000. in the same period.

Sinking fund payments became due in 1930, and during 1930 and 1931 such payments were made to a total of \$2,600,000.

These conditions produced the Emergency Law of 1931. They have not materially improved. In some respects they are worse. Falling commodity prices have seriously affected the Republic's three principal products—sugar, coffee and cocoa.

The same reasons for suspension of sinking fund payments obtain today as did in 1931, with the added necessity of repair and replacement of plant.

(3) The maintenance of stable government.

A strong, stable government has been established and is maintained. Law and order are preserved. Life and property are protected, and are secure. Enactment of the proposed new Emergency Law is necessary in our opinion to insure continuation of these conditions.

(4) The Dominican Government has demonstrated efficiency and good faith under the Emergency Law of 1931.

With the help of the Emergency Law of 1931, the Dominican Government has balanced its budget. It has enforced rigid budgetary principles and requirements in every department. It has drastically reduced salaries and personnel. It has improved public administration. It has reduced waste and extravagance. It has enforced economies and, at the same time, has made some progress in needed public works, despite limited resources.

It has paid off \$600,000. of its floating, internal debt, and has imposed new, domestic taxes on its people, to the extent of about \$500,000. per annum, to off-set partially the decline in revenues. Besides paying its bond interest of over \$900,000. each year, (nearly one-seventh of its total yearly income for interest alone), it has applied \$150,000. to retirement of bonds.

(Evidence to substantiate statements under (4) will be submitted if desired).

(5) A four-year suspension of amortization is necessary for the protection of bondholders, to guarantee interest and assure ultimate payment of principal in full.

The rehabilitation of Santo Domingo cannot be accomplished without time and opportunity for constructive public works, which will not only provide labor for those now unemployed, but will be a major factor in restoration of business, increase in buying power and improvement in the whole economic condition of the Republic. Harbors need dredging as a necessity to commerce. Extension of trunk and feeder roads is imperative. A large number of new bridges are needed.

None of these are luxuries or mere conveniences. All are immediate necessities upon which the rehabilitation of the Republic depends. Specified projects will be listed in the new Emergency Law. Long-time planning of such projects is necessary for reasons of economy.

Use of a part of custom revenues for such a reproductive program for the next four years, we believe, will constitute greater protection to bondholders than the use of such funds for retirement of bonds.

(6) Holders of Dominican bonds are satisfied.

Holders of Dominican bonds make no demand for amortization at this time. They seem satisfied. A month ago the Dominican Government caused \$100,000. to be sent to its fiscal agents to use in retiring Dominican bonds. The fiscal agents announced they would buy all bonds offered on the market. They have been able to expend only \$19,000, for the reason that few bonds are offered for sale.

It is pointed out, therefore, that no objection to a new Emergency Law can be made because of dissatisfied bondholders. Apparently there are none.

(7) Immediate passage of a new Emergency Law is necessary.

Business interests in Santo Domingo are beginning to hold up normal activities until they are advised what is to be done in connection with the expiration of the Emergency Law of 1931. Merchants are restricting credit. Orders for imported goods for early consumption, usually placed at this time, are being held up.

The Government is being delayed in making up its budget for 1934, and is not able to place orders for future supplies advantageously. Public works plans are being held in abeyance.

For these reasons, as well as for the basic equities in the case, it is necessary that the enactment of the proposed new Emergency Law be at once expedited.

Therefore, in accord with the attitude of the Dominican Government at the time of the proposal of the existing Emergency Law, enacted in 1931, we desire to informally acquaint you with these suggested proposals and the conditions to which they are directed, to the end that we may have the benefit of any suggestions which you may conclude to offer, before we submit our conclusions to the Dominican Government for formal consideration.

Very truly yours,

OLIVER P. NEWMAN

Economic and Financial Adviser

JOSEPH E. DAVIES

General Counsel

839.51/3989

The Minister in the Dominican Republic (Schoenfeld) to the Secretary of State

No. 1263

SANTO DOMINGO, November 4, 1933.

[Received November 9.]

SIR: I have the honor to enclose for the Department's information a memorandum prepared in this Legation ⁴⁴undertaking to summarize for ready reference the main facts in the recent financial and fiscal history of the Dominican Government, with special regard to the so-called Emergency Law and the apparent purpose of the Dominican Government, if possible, to extend the operation of the law after its expiration on December 31 next, either in its present form or in a form more advantageous to the Government. No conclusions as to policy on our part are drawn in the enclosed memorandum, which is designed to be factual in character.

When, as in the present case, the head of the Dominican Government has shown, and is conscious of possessing, administrative capacity somewhat unusual in Dominican history, it is less surprising than natural that he should strive to obtain the financial means with which to carry out his administrative program at the expense of prior obligations. The conditions that prevailed at the time the Dominican Emergency Law was passed two years ago undoubtedly obscured in

⁴⁴Not printed.

the mind of President Trujillo the possibility, which has since become more evident to him, of being enabled throughout the present administration and through subsequent administrations by him to enjoy the advantages afforded him by the income reaching the Treasury through the operation of the Emergency Law. The general feeling of the Dominican Government and of President Trujillo personally after the Emergency Law was enacted, was, at first, one of relieved appreciation of the helpful spirit shown by the American Government in having raised no objection to the enactment of the law. With the continued enjoyment of the funds made available through its operation, this sentiment of appreciation gradually became less conspicuous in the attitude of the Dominican Government until, at the present time, it is certain that the Dominican Government would feel deeply aggrieved by action on our part which would have the effect of reducing the amount of money the Government diverts to its own use from the customs revenue. The Dominican Government has lately seemed to be almost confident that, so far from objection being raised to continued enjoyment on its part of the funds so diverted, it may be permitted by the American Government to use an increased amount of money from the same source.

The present temper of the American people with regard to foreign governmental debts to private American bondholders is interpreted by the Dominican Government as being opposed to the continuance of a policy on the part of the American Government that was thought formerly to be approved by American public opinion and that was expressed, in the case of the Dominican Republic, by the Conventions of 1907 and 1924. The President of the Dominican Republic is not yet convinced that the American Government and, specifically, the Department of State have accepted the assumed change of public opinion in the United States to the extent of giving up in great part what, until the Dominican Emergency Law was enacted, were considered American governmental, as distinct from private, rights in relation to the service of the Dominican external debt. The Dominican Government hopes, however, to facilitate acceptance of that change by the American Government. It is the aim of President Trujillo so to arrange matters that the obligations of this Government to its American creditors may be dealt with from the standpoint of the theoretical maintenance of the Dominican Government's credit, with wide discretionary freedom for the President of the Dominican Republic in deciding how it may be expedient to meet this theoretical requirement in practice.

It would be untrue to say that the Dominican Government is not conscious of special circumstances which tend to differentiate the relation of the United States to the financial status of this country from

that relation with other Latin American republics. But, as above suggested, the Dominican Government is not without hope that the American Government may be willing substantially to modify its previous concept of that relation and the policy formulated on the basis thereof.

The policy of the American Government will, in my opinion, turn upon the question whether, in the case of the funded debt of the Dominican Government, the American Government assumed a responsibility towards the holders of Dominican external bonds so different, if at all different, from the ordinary relationship between the American Government and the private purchaser of a foreign governmental bond as to be not merely special, but unique. It is known that the authority of the Dominican Government to issue its present outstanding external bonds involved the express consent of the American Government to their issuance. It involved also the maintenance by the American Government of the General Receivership of Dominican Customs as its own administrative machinery to assure the service of the bond issues. With the exception of a somewhat similar situation in the Republic of Haiti, it is understood that, in the case of no other Latin American government bond issue, including Cuba, have these conditions obtained. If the conditions mentioned created a specific and unique responsibility upon the American Government with regard to the Dominican funded debt, that responsibility can not be said to have been changed in character by the unilateral action of the Dominican Government in enacting the Emergency Law in October, 1931. Nor does it appear that the Emergency Law changed the obligations of the United States in respect of the maintenance of the General Receivership of Customs until the Dominican funded debt now outstanding shall be redeemed.

Without undertaking to go over the ground covered in the attached memorandum, the factual material compiled therein points unmistakably to the early adoption by the United States of a policy that seems to be logically incumbent on our Government. The question of the wisdom or unwisdom of former American policy as represented by the Convention of 1924, may here be disregarded. For the purposes of the present discussion, the question may also be disregarded whether the American Government shall in future adopt a different policy in relation to such cases as that Convention was designed to meet. We are concerned for the present with the fact that the Dominican Emergency Law is now seen to have created a set of circumstances which touch not merely American governmental rights under the Convention but, more particularly, American governmental obligations imposed by the Convention. It may be expedient on occasion to forego rights, but it is believed that our Gov-

ernment cannot safely fail to meet obligations which, in this case, run not only to the holders of Dominican external bonds but to the Dominican Government itself.

The frankly emergency status in the Dominican debt service has now continued with our acquiescence for two years. It may well be questioned whether the American Government would be justified, in the light of the pertinent facts set forth in the attached memorandum, in permitting the emergency status to continue longer than the minimum time needed to enable the private American holders of Dominican bonds to express themselves as to the conditions under which, if at all, the amortization service of the debt shall be resumed. The American Government acquiesced in the enactment of the Dominican Emergency Law on an ascertained showing of necessity on the part of the Dominican Government. The American Government's obligations under the Convention of 1924 have continued unimpaired during the life of the Emergency Law. The forthcoming date of expiration of the explicitly limited period during which the Law was to remain in force appears to be the latest appropriate time for the Dominican Government to show cause why the practice contemplated in the Convention and its ancillary loan contracts for the amortization service of the debt shall not be resumed. For this purpose the Dominican Government could hardly object to a technical investigation of its financial and fiscal condition by disinterested experts.

It seems likely that the American Government will be unable to take a merely passive attitude while efforts, which thus far have been manifestly ineffective and perhaps listless, are made by the Dominican Government to reach an agreement as to resumption with the holders of the Dominican external debt. The American Government will probably be obliged by the unique circumstances of its relation to the Dominican funded debt to urge upon the Dominican Government positive and energetic efforts to expedite negotiations for an agreement with these holders. The same circumstances may be found to require affirmative co-operation by the American Government, as distinct from the co-operation of any special agency now in process of formation for the protection of American holders of other foreign governmental securities, in reaching the agreement in question. The Dominican Government may be inclined to object that such affirmative co-operation by the American Government would constitute into a privileged group the holders of Dominican external bonds, in comparison with American holders of other foreign government bonds; if so, it may have to be admitted that this has in fact been the case since the moment when the Dominican loans now outstanding were issued and that this state of things was the result neither of the deliberate purpose of the purchasers of Dominican bonds nor of design on the

part of the Dominican Government, but arose from the special responsibility towards both the holders of the bonds and the Dominican Government voluntarily accepted in pursuance of its then prevailing policy by the American Government.

It is respectfully submitted that, to save the specific responsibility of the American Government under the Convention of 1924 in respect of the loans issued by the Dominican Government with its express consent, the forthcoming expiration of the Dominican Emergency Law calls for a notification in unequivocal form to the Dominican Government of the American Government's position as revealed by study of all pertinent data, and that such notification had best be given the Dominican Government before the latter commits itself by legislation or otherwise to action in which the American Government would be unable to acquiesce.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/3984

Statement Made by the Assistant Secretary of State (Moore) in the Presence of the Secretary of State and Messrs. Joseph E. Davies and Oliver P. Newman, on November 7, 1933

Speaking unofficially and privately, I can say that if I were advising the Dominican Republic I would suggest an extension of the present law for a period of six months in order to give the opportunity to confer with bondholders and with the Committee that is now being organized. It seems to me that a period of six months should be sufficient for that purpose. I also advised a most careful scrutiny of expenditures with a view to making every possible economy that can be reasonably effected.

839.51/3983

The Secretary of State to Mr. Joseph E. Davies

WASHINGTON, November 8, 1933.

SIR: I have to acknowledge the receipt of your letter of October 18th relating to the financial situation of the Dominican Republic, in which you invite suggestions as to the conclusions you have reached respecting the course which in your judgment the Dominican Government should pursue in the difficult circumstances in which it is now placed. As I understand what you contemplate is, that the Dominican Government should take action postponing for a further period of four years beginning December 31, 1933, amortization payments on its external

debt. Although I realize with sympathetic consideration the difficulties the Dominican Government is encountering, I am compelled to tell you that it is not, in my opinion, within the province of the Government of the United States to express approval of or acquiescence in any action that may have the effect of varying the contracts of the Dominican Government with those who hold its bonds. No such authority, touching payment of interest, amortization payments or maturity dates is reserved to the United States by the terms of the Convention which gave it a limited connection with the subject, and, incidentally, I may remind you that, all else aside, any modification whatever of the provisions of the Convention would require action by our Senate.

I may add that I am not unmindful of the efforts made by the Dominican Government to protect its credit during this distressing period of world economic depression.

My information is that the President has announced his intention to create a Central Bondholders Committee to deal with the entire matter of bonds of foreign countries held by citizens of this country which are now in default,⁴⁵ and that this Committee will be definitely constituted before long. This Committee would appear to be the proper channel through which the bondholders should be approached with respect to the questions presented in your letter to me.

Very truly yours,

CORDELL HULL

839.51/4013

The Dominican Minister (Despradel) to the Acting Secretary of State

WASHINGTON, November 13, 1933.

EXCELLENCY: I have the honor to transmit to Your Excellency, at the direction of my Government, the following:

When the administration, presided over by President Trujillo, came into power on August 16, 1930, not only did it have to face the disastrous consequences of the previous extravagant and inefficient administration—i. e., existing political instability, a bankrupt treasury with salaries and expenses in arrears amounting to more than \$1,750,000.00, and consequent lack of confidence in business circles—but was also confronted with the fact that the properties acquired and the works executed in previous years, carried out in greater part by monies from foreign loans, were almost in complete decadence, and, without funds to face this urgent situation, the total loss of the large

⁴⁵ For text of the White House announcement, October 20, 1933, see Department of State, *Press Releases*, October 21, 1933, p. 227.

sums already invested was imminent. Furthermore, the time had arrived to begin amortization of the loans contracted.

In order to meet the situation described above, the Dominican Government needed then and needs now, indispensably, a reconstruction period during which the works and properties mentioned can obtain their original value and be converted into sources of production, thus contributing to save the country from ruin and constituting a solid guarantee for the loans contracted.

In a diplomatic note addressed to the Government of the United States, under date of October 20, 1931,⁴⁶ the Government of the Dominican Republic set forth the difficult circumstances which compelled it to propose the enactment of emergency legislation authorizing the diversion of a certain portion of the customs revenues in order to apply such funds to the maintenance of essential governmental activities without which it would be impossible to insure internal tranquillity and the orderly processes of public administration. The Dominican Government recognized that such action would be contrary to the terms of the Convention of 1924, as well as a partial violation of the provisions of the existing external loan contracts. The proposed Emergency Law was not passed by the Dominican Congress, however, until after the Government of the United States had fully investigated the situation and evidenced no objections.

The Emergency Law in question, which was promulgated by His Excellency, the President of the Dominican Republic on October 24, 1931, provided for the payment to the Dominican Government of a maximum sum of \$125,000.00 per month, or \$1,500,000.00 annually, from customs revenues, after full payment of interest on all outstanding external bonds and of the necessary expenses of the General Receiver of Customs and of the Special Emergency Office created by this law.

The provisions of the Emergency Law were put into execution at the earliest possible moment. Simultaneously my Government undertook the various and successive reforms in its general fiscal administration that it believed necessary to demonstrate its earnest desire to conform to the letter and spirit of the emergency legislation, viz: the correct and efficient administration of all government revenues in such a way as to justify the partial diversion of customs revenues. A recapitulation of these reforms seems pertinent at this point, as follows:

1. Maintenance of a balanced budget, and prompt payment of all current salaries and expenses.
2. Establishment of a scientific system of control over government expenditures.

⁴⁶ *Foreign Relations*, 1931, vol. II, p. 124.

3. Centralization of Government purchases in a reorganized Bureau of Supplies with resulting economies and benefit to the Dominican people as a whole.

4. Inauguration of internal revenue reforms under a competent foreign specialist.

5. Rigid economies in all branches of the public administration.

6. Gradual reduction of the floating debt under special laws enacted for this purpose.

7. Inauguration of an economical and efficient public works program.

The foregoing measures cover almost the entire field of Dominican fiscal administration, and will demonstrate my Government's good faith and earnest desire to conform to the principles of the Emergency Plan.

As a purely temporary expedient, designed to prevent the threatened collapse of orderly Government in the Dominican Republic, the Emergency Law as originally passed has served its purpose well. However, it could never be considered as a permanent solution of the nation's fiscal difficulties.

The Emergency Law, vital though it has been to the welfare of the Dominican people, has merely sufficed to hold together a precarious situation, and has not been far-reaching enough to affect general basic conditions which have a direct influence on such a situation. In other words, the efforts of my Government under the present law have necessarily been limited to carrying on essential processes of government on a greatly reduced scale, and sufficient funds have not been made available to stimulate economic activities on which final recovery must depend. It is the conviction of my Government that law and order having been safe-guarded by the present emergency resources made available to it, it would be sound economy to carry out a modest program of vital physical rehabilitation and stimulation of the productive resources of the country without which a further dwindling of the national revenues can hardly be avoided. Such a policy would also seem to be vital to the interests of our foreign creditors, since a continuation of the declining tendency in revenues would obviously make it more and more difficult to pay even the interest on our external bonds.

The bare essentials in such a program include the maintenance of means of communication whereby the products of the country can be exported to foreign markets; and the imports of merchandise, from which a large part of our revenues are derived, can be distributed in the local markets. Such activities would include the repair and upkeep of existing roads, the opening up of inexpensive new feeder roads to tap productive areas now isolated from outside markets, the erection of sorely needed bridges, the dredging of some of our ports,

which have had no attention during the past five years, and the construction of other reproductive public works which will produce additional revenues. The funds that are available for such purposes, even with the aid of present emergency funds, are not sufficient to carry out a minimum economical program of maintenance and rehabilitation, covering essential activities; and further delay will endanger the Republic's physical assets without which it could not maintain its present standards and stage of economic development. Additional funds are also needed for practical agricultural relief in order to bring about an increase in the volume of our products, thus off-setting as much as possible the low commodity prices now prevailing, and, as a result conserving the country's purchasing power.

My Government feels that it can be justly proud of its present public works organization and of the methods that have been adopted after a preliminary effort to carry on such activities through private foreign contractors. The work done by the Dominican Republic has resulted in direct and substantial savings to the public Treasury. The fact that both the technical and financial aspects of the work will continue to be efficiently so handled and that full value will be obtained from the expenditure of every dollar would seem to justify the application of all possible funds for such reproductive purposes for a limited period of time rather than to use such sorely needed funds for the purchase of our external bonds in the open market to the detriment of our international balance of payments and perhaps of the payment of interest itself.

It is obvious to competent persons familiar with our local situation that an investment made now to restore such assets will go vastly further than if such investment is further postponed. My Government feels that the real test of its success lies in its ability to restore the physical properties of the country on at least a minimum scale and to maintain fiscal equilibrium, both of which are vitally necessary if government is to continue to preserve property, life and the liberties of the Dominican people.

The total revenues of the Dominican Republic decreased from \$15,000,000.00 in 1927 to approximately \$7,000,000.00 in 1932. Of these customs revenues decreased from \$5,900,000.00 to \$2,700,000.00 in the same period.

As total income continues at about the same low level as in 1931-1932, the necessity to continue to divert a part of customs revenues to complete requirements for salaries and routine government expenses, is as vital now as two years ago with the added necessity of providing funds for repair and replacement of plant, etc., as set forth above.

We have therefore reached the conclusion to take up the matter of adjustment of the situation with the bondholders through the Central

Bondholders Committee, recently appointed by the President of the United States.

We are advised that that Committee has not yet organized, and the administrative machinery has not yet been established, but that it will be ready to function in the immediate future.

In view of that fact, my government has decided that it will be advisable to retain the present *status quo* until consideration of our problems has been had by this Committee. To that end, my government believes it necessary to extend the existing Emergency Law, for a period of six months, from December 31, 1933.

My government is exceedingly anxious to conclude the proposed readjustment of our foreign debt service, and believes that the proposed six months' extension of the *status quo* should afford sufficient time in which to enable the Committee to give full consideration to the situation.

Because the Dominican Constitution requires that the government budget shall be made on an annual basis, an extension of the Emergency Law for a period of six months only is impractical and would, in effect, be violating the constitution. Because of that fact my government has extended the Emergency Law without nominal limitation as follows:

"Sole Article: While the economic arrangements, which the Dominican Government is diligently endeavoring to realize, with relation to the external debt of the Republic, are being concluded, there is hereby extended the life of Emergency Law Number 206, dated October 23, 1931, from and after December 31, 1933."

My government contemplates that the matter of the external debt may be considered and adjusted within six months from January 1, 1934, in which event the Emergency Law will be repealed. Every effort will be made in behalf of my government to expedite consideration of the case before the Central Bondholders Committee when it is ready to function, to the end that the operation of the law can be terminated in less than six months if possible.

If despite cooperation and every effort, the matter were not adjusted within the six month period, the Emergency Law would have to be re-enacted. If re-enacted at this time without nominal limitations, there would be no necessity for re-enactment at the end of the six months period, pending completion of the negotiations.

Your government has the assurance of my government that it is making, and will make, every effort to have this matter adjusted within the period of six months and will retain the *status quo* pending that determination.

My government desires, however, to stress the fact that the existing emergency law is insufficient to properly protect the Republic from

distress and injury. It will, however, withhold any new or additional emergency provisions awaiting the conclusion of the negotiations through the Central Bondholders Committee.

In view of the foregoing statements and explanations, I trust that Your Excellency, as well as the Government of the United States, will appreciate the foregoing basic reasons for this course which my Government has been obliged to take.

I take [etc.]

ROBERTO DESPRADEL

839.51/3996 : Telegram

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

SANTO DOMINGO, November 14, 1933—8 p. m.

[Received 10:28 p. m.]

47. Local press tonight carries official report from Santiago where Congress is in session to the effect that the President of the Republic today submitted to the Senate a bill to extend life of Emergency Law Number 206. Bill is as follows in translation:

"Sole Article. Pending the conclusion of the financial arrangements which are being carried out by the effort of the Government concerning the external debt of the Republic, the life of Emergency Law Number 206 dated October 23, 1931, is extended from and after December 31, 1933."

Official report adds that the above bill was unanimously passed in the Senate.

SCHOENFELD

839.51/4004 : Telegram

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

SANTO DOMINGO, November 21, 1933—1 p. m.

[Received 2:20 p. m.]

49. My telegrams No. 47 and 48, November 14 and 17, respectively.⁴⁷ Local press today announces that the President on November 16 signed the bill extending emergency law thereby completing enactment. No mention of the matter has been made to me by any Dominican official. In the absence of instructions from the Department I have made no mention of the subject at the Foreign Office or to other Dominican officials.

SCHOENFELD

⁴⁷ Telegram No. 48, November 17, not printed; it conveyed the information that the Chamber of Deputies had, on November 16, passed the bill extending the emergency law (839.51/3998).

839.51/4010

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

No. 1316

SANTO DOMINGO, November 24, 1933.

[Received November 27.]

SIR: Referring to my despatch No. 1268 of November 7,⁴⁸ I have the honor to report that President Trujillo left Santo Domingo on November 22 to return to the official residence of the Executive at Santiago de los Caballeros. As reported in my despatch No. 1290 of November 14,⁴⁸ the Dominican Congress by appropriate legislation extended the recent session at Santiago, which was to expire on November 13, for thirty days after that date. I understand from Sr. Vega, Acting Secretary of Finance, that the principal remaining legislation to be taken up at this session by the Congress with the President's cooperation will be the formulation of the Government's budget for 1934.

The recent enactment by the Dominican Congress of a bill introduced at the instance of President Trujillo for extending the Emergency Law of October 23, 1931, for as long as may be necessary after December 31 next, pending the conclusion of the negotiations for re-adjustment of the Dominican external debt which are now understood to be in progress in the United States, has been regarded by the Government as a necessary preliminary to the definitive formulation of the budget for 1934.

It is understood that the President, prior to his departure for Santiago as above reported, expressed gratification at the absence of any comment by the American Government with regard to the extension of the Emergency Law. In fact, the President is reported to have been "elated". Elation on the President's part would be natural, inasmuch as members of the Government as long ago as September last indicated to me that until the Emergency Law should be extended, it would be impracticable to formulate the budget for the ensuing fiscal year. It was said that the Government must be able to count on the funds now received through the operation of that law or upon increased funds from further diversion of the customs revenue, to carry out the administrative program which the President has had in mind for next year.

Should it be the Department's intention to make any observations as to the recent extension of the Emergency Law, it is respectfully suggested that it would perhaps be fairer to the Dominican Govern-

⁴⁸ Not printed.

ment to make such observations prior to the forthcoming enactment of the budget law for 1934 than to defer making such observations until a later time.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/4013

The Acting Secretary of State to the Dominican Minister (Despradel)

WASHINGTON, November 28, 1933.

SIR: The receipt is acknowledged of your note of November 13, 1933, in which you set forth reasons that have prompted your Government in extending the life Emergency Law No. 206 of October 23, 1931, from and after December 31, 1933.

I beg to remind you that this Department has no authority to vary or sanction the variation of the terms of the Convention which provides for the service of the external debt of your Government. The Department understands that your Government expects to take up with the Central Bondholders Committee now in process of organization the matter of working out with the bondholders an arrangement with respect to amortization of the bonds that will be mutually satisfactory and that not more than six months will be necessary for this purpose.

Accept [etc.]

WILLIAM PHILLIPS

839.51/4029

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

No. 1343

SANTO DOMINGO, December 13, 1933.

[Received December 18.]

SIR: I have the honor to acknowledge the receipt of the Department's telegraphic instruction No. 28 of December 11, 1933—5 p. m.,⁴⁹ and to enclose for the Department's information a copy of a note addressed by me yesterday to the Dominican Minister of Foreign Affairs in pursuance of that instruction.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

⁴⁹ Not printed.

[Enclosure]

The American Minister (Schoenfeld) to the Dominican Secretary of State for Foreign Affairs (Logroño)

No. 153

SANTO DOMINGO, December 12, 1933.

MR. SECRETARY: I have the honor to make further reference to Your Excellency's courteous note No. 612, dated September 15, 1933,⁵⁰ respecting the application of the surplus in the fund created by Emergency Law No. 206, and to inform Your Excellency that I am instructed by my Government to make the following statement on its behalf:

The Government of the United States desires to make clear that, while the Emergency Law of October 23, 1931, was enacted on the sole responsibility of the Government of the Dominican Republic, the Government of the United States considers that any other disposition of the above mentioned surplus than that provided by the terms of the Emergency Law itself should receive the express consent of the bondholders. The Central Bondholders Committee when established would appear to be the channel through which the Government of the Dominican Republic could properly approach the holders of Dominican external bonds in the matter.

On November 13, 1933, the Dominican Minister in Washington informed the Department of State that the Emergency Law of October 23, 1931, had been extended. Under date of November 28, 1933, the Department of State replied that it has no authority to vary or sanction the variation of the terms of the Convention which provides for the service of the external debt of the Government of the Dominican Republic. The Government of the United States understands that the Government of the Dominican Republic expects to take up with the Central Bondholders Committee now in process of organization the matter of working out with the bondholders an arrangement with respect to amortization of the bonds that will be mutually satisfactory and that not more than six months will be necessary for this purpose.

I avail myself [etc.]

H. F. ARTHUR SCHOENFELD

839.51/4035

The Minister in the Dominican Republic (Schoenfeld) to the Acting Secretary of State

No. 1360

SANTO DOMINGO, December 27, 1933.

[Received January 2, 1934.]

SIR: I have the honor to inform the Department that during a conversation today with the Minister of Foreign Affairs, Lcdo. Logroño

⁵⁰ *Ante*, p. 647.

told me that, according to advice very recently received by the Dominican Government from Dr. Tulio M. Cestero, Dominican Minister to the Argentine Republic, Brazil, Chile and Uruguay, and lately Dominican Delegate to the Seventh International Conference of American States at Montevideo, Secretary Hull had requested Dr. Cestero to defer further action regarding the readjustment of the external debt of the Dominican Government until Secretary Hull's return to Washington from the recent conference at Montevideo.

Lcdo. Logroño made this statement in response to the statement that I had been advised that the Central Bondholders Committee had recently advanced its organization and might be expected shortly to organize a sub-committee prepared to devote attention to the Dominican debt problem, with particular reference to reaching an agreement for resuming regular amortization payments on the external debt. Lcdo. Logroño gave me to understand that while the Dominican Government was preparing to submit to the appropriate authority a complete statement of its wishes in relation to the proposed reorganization of the debt service, the negotiations were now being deferred pending the return of the Secretary of State to Washington. Lcdo. Logroño intimated that the Dominican Government expected the negotiations to be greatly facilitated by the promised support of the Secretary of State and Assistant Secretary Moore working, he indicated, in coöperation with Mr. Joseph E. Davies, who was retained last May as Counsel in financial matters to the Dominican Government.

I took the opportunity of this conversation to urge upon the Minister of Foreign Affairs the desirability of making a further remittance at the year-end to the General Receiver for amortization of the foreign debt under the provisions of the Emergency Law. I called his attention to the substantial size of the surplus in the Emergency Fund at the end of last month, and the probability of its being considerably increased at the end of the current month, during which customs receipts are already reported to have been larger than usual. I pointed out to the Minister of Foreign Affairs that a substantial payment from this surplus to the General Receiver for sinking fund could not but be regarded in the United States as an earnest of the Dominican Government's entire good faith in the forthcoming negotiations and would, to this extent, serve to maintain an atmosphere of confidence which must necessarily redound to the advantage of the Dominican Government. Lcdo. Logroño told me that he would present the matter in this light to the President of the Republic.

The impression left on my mind by my conversation with the Minister of Foreign Affairs on this subject is that, regardless of the accumulating surplus in the Emergency Fund, it has lately become the intention of President Trujillo to make no further remittances for

sinking fund pending a final agreement with the bondholders. It is doubtless the aim of the Dominican Government, if possible, to make that agreement on terms that will provide a larger monthly payment to the Government for its General Fund than it now receives through the operation of the Emergency Law.

Nor are indications lacking that President Trujillo is not disposed to be very amenable to the demands of the bondholders, if and when they are consulted. The present attitude of the Dominican Government is revealed with only slight obscurity in President Trujillo's speech at Santomé on December 20, which was reported to the Department in my despatch No. 1352 of that date.⁵¹ Further confirmation of the views now current in Government circles on this subject is afforded in statements made by the Acting Secretary of Finance to the General Receiver of Dominican Customs in a personal conversation between them on December 23. I enclose an excerpt from a memorandum describing this conversation,⁵¹ supplied to me by Mr. Pulliam.

Respectfully yours,

H. F. ARTHUR SCHOENFELD

839.51/4035

The Acting Secretary of State to the Minister in the Dominican Republic (Schoenfeld)

No. 224

WASHINGTON, January 10, 1934.

SIR: The receipt is acknowledged of your despatch No. 1360 of December 27, 1933, relating to the conversation between yourself and the Minister of Foreign Relations regarding the proposed delay in beginning the Dominican debt negotiations with the Foreign Bondholders Protective Council.

With respect to the statement made by the Minister of Foreign Affairs on advice recently received by the Dominican Government from Doctor Tulio M. Cestero, Dominican Delegate to the Seventh International Conference of American States at Montevideo, that the Secretary of State had requested Doctor Cestero to defer further action regarding the readjustment of the external debt of the Dominican Republic until the Secretary's return to Washington, you are informed that the Department has received no information whatever from the Secretary which would confirm this statement.

With reference to the impression given by the Minister of Foreign Relations to the effect that while the Dominican Government was preparing to submit to the appropriate authority a complete statement of its wishes in relation to the proposed reorganization of the debt service, the negotiations were now being deferred pending the return

⁵¹ Not printed.

of the Secretary to Washington; and the intimation also given by the Minister of Foreign Relations that the Dominican Government expected the negotiations to be greatly facilitated by the promised support of the Secretary of State and Assistant Secretary Moore working in cooperation with Mr. Joseph E. Davies, copies of correspondence between Mr. Joseph E. Davies and the Department, and the Dominican Legation and the Department, transmitted with the Department's instruction No. 215 of November 20, 1933, and No. 221 of December 2, 1933,⁵² completely negative these ideas of the Foreign Minister.

Very truly yours,

For the Acting Secretary of State:

R. WALTON MOORE

⁵² Neither printed.

ECUADOR

EFFORTS BY THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO ECUA- DORAN EXCHANGE RESTRICTIONS

822.5151/177

The Acting Secretary of State to the Minister in Ecuador (Dawson)

No. 237

WASHINGTON, July 29, 1933.

SIR: Reference is made to your despatch No. 1059 of July 10, 1933,¹ relative to the measures taken by the Spanish and French Governments in view of the delay in the payment of sums due Spanish and French merchants by Ecuadoran importers as a result of Ecuadoran exchange control and in which you report that the Ecuadoran Government is disposed to make concessions and has proposed to both Spain and France an arrangement under which a certain percentage requisitioned by the Central Bank covering exports to those countries would be applied to the payment of pending and future sums due their nationals.

In reply you are instructed to advise the Minister for Foreign Affairs informally, if you see no objection to such action, that while this Government will not desire to obtain an agreement similar to the proposals mentioned it will expect the Government of Ecuador to assure practical most-favored-nation treatment by extending to American interests advantages equivalent to those obtained by other countries through clearing agreements.

Very truly yours,

For the Acting Secretary of State:
JEFFERSON CAFFERY

822.5151/179: Telegram

The Minister in Ecuador (Dawson) to the Acting Secretary of State.

QUITO, July 28, 1933—4 p. m.
[Received 9:05 p. m.]

25. My despatch No. 1063, July 14.¹ I am informed by the Foreign Office that an agreement has been reached to the effect that 50 percent of the exchange arising from future Ecuadorian exports to France

¹ Not printed.

will be devoted to payment of sums due French nationals. The negotiations have been conducted in Paris and further details concerning arrangement are not yet available here.²

DAWSON

822.5151/191

The Minister in Ecuador (Dawson) to the Secretary of State

No. 1108

QUITO, August 28, 1933.

[Received September 8.]

SIR: I have the honor to refer to the Department's air mail instruction No. 237 of July 29, 1933 (File No. 822.5151/177), concerning eventual concessions on the part of Ecuador to French and Spanish merchants in the matter of exchange control, and directing me to advise the Minister for Foreign Affairs informally, if no objection is seen to such action, that, while the Government of the United States will not desire to obtain an agreement similar to the proposals referred to in my despatch No. 1059 of July 10,³ it will expect the Government of Ecuador to assure practical most-favored-nation treatment by extending to American interests advantages equivalent to those obtained by other countries through clearing agreements.

In compliance with the Department's instruction, an informal statement to the foregoing effect was made to the Undersecretary for Foreign Affairs on August 24. The Undersecretary, with whom I left an appropriate *aide-mémoire*, stated that he would bring the matter at once to the attention of the Minister of Government, temporarily in charge of Foreign Affairs, and subsequently to the attention of the Minister for Foreign Affairs, as soon as a definite appointment is made.

My informal representation to the Foreign Office was deferred until August 24 because of the perturbed internal situation which has prevailed in Ecuador since the receipt of the Department's instruction. Indeed, in the absence of a Minister for Foreign Affairs and in view of the general uncertainty as respects the stability of the present regime, I should have been disposed to postpone still further my communication, had I not felt that it might be advisable to place our position on record for eventual future reference.

As soon as domestic political conditions become somewhat more favorable, I shall take the matter up again with the official then in charge of the Foreign Office.

In the meantime, I hope to receive from the Consul General in Guayaquil detailed information regarding the past and present oper-

² For text of the clearing agreement between Ecuador and France, signed July 27, 1933, see *French Journal Officiel*, August 4, 1933, p. 8287.

³ Not printed.

ations of the exchange control with particular reference to the treatment of American interests as compared with those of other countries. In a preliminary report of August 17, Mr. Quarton expresses some concern on this score. I have requested him to furnish the Legation detailed information, and, if it appears that there has been any discrimination against American interests, I shall bring the matter to the attention of the Foreign Office.

Attitude of Congress.

As forecast in my despatch No. 1059 of July 10, Congress has been too preoccupied with political matters to give any serious attention thus far to the exchange control. Early in the session, a bill was introduced in the Chamber of Deputies the effect of which would be to abrogate the present system but to provide at the same time for the requisition of thirty per cent of the amount of export drafts to be applied to existing obligations. On August 12, the Senate approved motions calling for information concerning the exchange control and the appointment of a commission to investigate its operations. On August 22, the Chamber of Commerce and Agriculture of Guayaquil urged Congress to give immediate consideration to the exchange control, alleging that in the meantime commercial transactions were completely paralyzed.

Agreement with France; Negotiations with Spain.

As previously reported by the Legation (see despatch No. 1091 of August 5, 1933 ⁴), an agreement has been signed with France under which fifty per cent of exchange arising from Ecuadoran exports to France will be set aside to satisfy obligations to French nationals.

From such information as I have been able to obtain from the Ecuadoran Foreign Office, it is not clear whether the agreement has been formally ratified. In particular, the Undersecretary for Foreign Affairs informs me that he does not know whether the French Government has accepted an Ecuadoran reservation under which the agreement would cease to operate in the event that the Ecuadoran Congress should abrogate the existing exchange control.

However this may be, I am advised by the Central Bank of Ecuador, in charge of the exchange control, that the agreement is in effect and will apply to drafts covering export shipments to France subsequent to August 1. Regulations for the carrying out of the agreement have not yet been drawn up. They will, it is understood, be discussed with the Banco Italiano, of Guayaquil, which has been appointed to act as the agent of the French interests concerned.

⁴ Not printed.

The text of the Franco-Ecuadoran agreement has not been made public. I am endeavoring to obtain a copy which will be furnished to the Department, if available.

As respects the negotiations with Spain referred to in my despatches No. 1059 of July 10 and No. 1063 of July 14,⁵ I am informed that no agreement has yet been reached.

Respectfully yours,

WILLIAM DAWSON

822.5151/196

The Minister in Ecuador (Dawson) to the Secretary of State

No. 1130

QUITO, September 12, 1933.

[Received September 22.]

SIR: I have the honor to refer to my despatch No. 1108 of August 28, 1933, concerning the Ecuadoran exchange control and in particular to the opening paragraphs reporting that on August 24 I advised the Undersecretary for Foreign Affairs informally that the United States Government would expect the Ecuadoran Government to assure practical most-favored-nation treatment by extending to American interests advantages equivalent to those obtained by other countries through clearing agreements.

In view of the perturbed and unstable conditions prevailing in Ecuador and the frequent cabinet changes of the past few days, I have considered it useless to discuss the matter further with the Undersecretary for the present. It may be recalled in this connection that, save for a few hours on September 4 and 5, the country has been without a Minister for Foreign Affairs since August 16 and that during the past week the President was twice compelled to reconstitute his cabinet.

As soon as domestic political conditions become somewhat more favorable, I shall take the matter up again with the official then in charge of the Foreign Office.

As respects proposed legislation concerning the exchange control, little progress has been made and the Chamber of Deputies has not yet taken any definitive action touching the bill under discussion for the partial abrogation of the existing system (Despatch No. 1108, Page 3).

Protection of American Interests.

In spite of present confusion and the uncertain outlook, as respects not only political developments but also the future of the exchange control, I believe that it would be well to give timely consideration to the eventual means of assuring equitable treatment for American

⁵ Neither printed.

interests, in case the present or some similar system should be maintained.

As reported in my despatch No. 1126 of September 9, 1933,⁶ concerning the relative treatment of American interests, I find no reason to believe that there has thus far been any discrimination against the United States in the distribution of exchange. However, the recent conclusion of a clearing agreement with France may in practice alter the situation to our disadvantage.

Even if it be assumed that, following my recent informal statement to the Undersecretary or as a result of subsequent informal representations, the Ecuadoran Government will be ready to extend most-favored-nation treatment in principle, I doubt if, in practice, such treatment can be counted upon in the absence of some more definite arrangement. It must be borne in mind that available exchange is and will be wholly inadequate and that, in addition to urgent private demands, the Government itself is in constant need of drafts. Furthermore, it would be difficult to ascertain just how American interests might be faring, since no reliable detailed information is currently available concerning exchange requisitioned, applied for, and issued.

The Franco-Ecuadoran clearing agreement assures to French interests fifty per cent of exchange arising from Ecuadoran exports to France and provides adequate machinery for making this assurance effective. From the Department's instruction No. 237 of July 29, 1933, I infer that in the case of the United States such an agreement is considered inadvisable or impracticable. Consideration might, however, I believe, be given to the advisability of seeking from the Ecuadoran Government some more definite commitment than a mere general assurance of most-favored-nation treatment. Such a commitment might perhaps take the form of an agreement to the effect that fifty per cent of exchange arising from exports to the United States would be applied to the payment of sums due American nationals.

Of course, even such a commitment would still leave us without the advantages of the machinery set up by France to insure collection of the sums due its nationals. However, ways and means might be found by which the Consulate General in Guayaquil could keep some check on the requisition and issuance of dollar exchange with a view to assuring itself that our interests were receiving the percentage guaranteed them. In any case, I should consider an agreement to set aside a definite percentage of exchange as offering decided advantages over a mere promise of most-favored-nation treatment.

Statement by President of Central Bank.

On September 7, the President of the Central Bank, Dr. Alberto

⁶ Not printed.

Larrea Chiriboga, attended a session of the Chamber of Deputies for the purpose of furnishing information in connection with the discussion of legislation concerning the exchange control.

According to the reports of the session published by two local papers, he stated in the course of his remarks that clearing agreements were in course of negotiation with the United States and Italy. Fearing that my statement to the Undersecretary might have been misunderstood or have reached Dr. Larrea Chiriboga in a garbled form, I questioned him about the remarks attributed to him in the press. In reply, he informed me that he had made no such statement, that he had no information from the Foreign Office concerning any negotiations, and that he had merely said, in referring to the Franco-Ecuadoran agreement, that it was to be assumed that similar arrangements would be sought sooner or later by the United States and Italy.

It may be inferred that Dr. Larrea Chiriboga and no doubt others anticipate that the United States and other countries will request concessions similar to those made to France.

Conclusion.

In conclusion, I desire to make it clear that the purpose of the present despatch is merely to lay the situation before the Department and to submit for its consideration a course of action which might serve to protect American interests, in the event that the present or some similar system of exchange control is maintained in Ecuador. Since the future status of the exchange control itself is in doubt, it is obvious that a definite decision can hardly be reached for the present, and it might seem more logical to defer any consideration of the matter pending further action by the Ecuadoran Congress. However, little progress is being made with legislation of any sort, and the decision of Congress as respects the exchange control may be greatly delayed. Furthermore, present indications are that the existing system will in any case be only partially abrogated. It should also be noted that, as has been pointed out by Consul General Quarton, cacao shipments to the United States will begin in December and that, in consequence, any concessions in the matter of exchange which our Government may wish to request should be taken up with the Ecuadoran Government before that time. It seems likely that the Ecuadoran authorities would be less disposed to heed any representations after exports are underway and financing arrangements for the season have been made.⁷

Respectfully yours,

WILLIAM DAWSON

⁷ No further representations were made in the matter. On November 27, 1933, a Legislative decree partially abrogating exchange control was passed by the Ecuadoran Congress; the decree was promulgated in the *Registro Oficial*, December 16, 1933.

EL SALVADOR

REFUSAL OF THE UNITED STATES TO RECOGNIZE THE MARTÍNEZ REGIME IN EL SALVADOR¹

816.01/285

The Chargé in Guatemala (Lawton) to the Secretary of State

No. 889

GUATEMALA, March 2, 1933.

[Received March 8.]

SIR: I have the honor to report that the Minister for Foreign Affairs today asked me to convey once again his views regarding the Martínez régime to the Department. He said that he desired to make known to the incoming Secretary of State the willingness of the Guatemalan Government to co-operate in any policy with respect to General Martínez that might be decided upon by the new Administration.

I asked Mr. Skinner-Klee how the relations of Guatemala with El Salvador were at the present time. He replied that they were very unsatisfactory; but did not mention any specific new occurrences. He referred to the continuance of bad feeling and the alleged machinations of General Martínez in connection with his shipment of arms to Honduras and Nicaragua. I asked if it was not possible to improve the feeling between the two Republics even though the diplomatic situation remained as at present. Mr. Skinner-Klee said that such an improvement could not be looked for under existing conditions, but that, on the contrary, he expected things to go from bad to worse if the present policy were maintained. He said that in his opinion there were only two ways of laying the basis for a permanent understanding: either Martínez should be recognized, or he should be forced out. I asked him how he thought he should be forced out. He said that Guatemala alone could do nothing; but that full severance of diplomatic relations and an economic boycott on the part of the non-recognizing powers would force him out in no time. I did not comment on this; but asked him more about his desire to co-operate with the incoming Secretary of State.

Mr. Skinner-Klee continued by referring to a speech made by Mr. Stimson at the Pan-American Union on February 20th last,² in which he advocated upholding the sanctity of treaties. The Foreign Minis-

¹ Continued from *Foreign Relations*, 1932, vol. v, pp. 566-612.

² See Department of State, *Press Releases*, February 25, 1933, pp. 130-131.

ter expressed himself as very much in accord with that statement. He said, however, that any policy decided upon by the Department would be faithfully accepted by Guatemala. If Washington wanted to leave matters as they are, Guatemala would do nothing. If Washington wanted to recognize Martínez, Guatemala would do so too. If Washington wanted to force him out, Guatemala would very gladly co-operate. And I gathered that it was this last course that Mr. Skinner-Klee favored.

In concluding our conversation I said that I would be glad to convey his views to the Department. Naturally I had nothing to say about the policy of the incoming Administration. With respect to our relations with El Salvador, I said that I had heard of no new developments.

My reaction to the remarks of the Foreign Minister was that the sooner he could be informed of the Department's views the better. He is apparently hoping for a stronger policy against Martínez; and until he is assured that the Department does not contemplate any change in its policy, his Government is unlikely to settle down to making the best of things as they are.

Presumably Mr. Whitehouse will have discussed much more fully the above matters with the officials of the Department while on his present leave of absence. However, it is possible that the latest comments of Mr. Skinner-Klee on the Salvadoran situation may be helpful in those discussions.

Respectfully yours,

EDWARD P. LAWTON

816.01/301

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 157

MEXICO, June 2, 1933.

[Received June 7.]

SIR: Referring to my personal telegram to the Secretary number 97 of May 17, 12 noon,³ suggesting that, because of the effect in Latin America, it would be advisable for the President's message to the heads of the governments of the world⁴ to be sent likewise to the President of El Salvador, I have the honor to transmit herewith a copy and translation of a letter³ from the Minister for Foreign Affairs of El Salvador to Doctor Juan Ramón Uriarte, Minister of El Salvador in Mexico, the original of which was lent to the Embassy by Doctor Uriarte for our information.

The Minister for Foreign Affairs told me at an informal luncheon at the Embassy today that the Minister of El Salvador had called

³ Not printed.

⁴ Vol. I, p. 143.

on him yesterday at the Foreign Office and had asked Doctor Puig to use his friendly offices in order to bring about the recognition of El Salvador by the United States. Doctor Puig said that he had asked Doctor Uriarte to give him a memorandum, which he would be glad to study. He said that Doctor Uriarte must be aware that he, Doctor Puig, would not be particularly sympathetic to the recognition of President Martínez, Doctor Puig having written some articles in his paper here very uncomplimentary to President Martínez' régime, shortly after the latter had assumed power. He said furthermore that when he was in Washington as Ambassador he had received a telegram requesting him to present an emissary of General Martínez to the State Department; that he had been to see Assistant Secretary White, and that Mr. White had appeared surprised that Doctor Puig, who had written articles criticizing President Martínez, should now wish to introduce one of his emissaries. Doctor Puig said he mentioned this incident as an illustration of the curious situation in which he was placed. He said that he obtained the impression from the Minister of El Salvador that one of his strongest arguments in urging recognition of El Salvador by the United States is the influence for harmony which this action would have at the forthcoming Montevideo Conference.⁵

My conversation with Doctor Puig, which was entirely informal, should not be construed as his having suggested that we recognize the present government of El Salvador. I understood him to say that he had not promised Doctor Uriarte to take any action, but that he would await the receipt of the memorandum which the latter is to deliver to him.

Respectfully yours,

JOSEPHUS DANIELS

816.01/302

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 230

MEXICO, June 16, 1933.

[Received June 21.]

SIR: I have the honor to refer to my despatch number 157 of June 2, 1933, reporting an informal conversation which I had with the Minister for Foreign Affairs on that day with regard to the desire of the Minister of El Salvador in Mexico, Doctor Juan Ramón Uriarte, that Doctor Puig Casauranc use his friendly offices to bring about the recognition of El Salvador by the United States.

⁵ For correspondence concerning the Seventh International Conference of American States, held at Montevideo, December 3-26, 1933, see vol. iv, pp. 1 ff.

On the morning of June 15, prior to my calling on Doctor Puig on his regular diplomatic reception day in connection with other matters, I received a letter from him, dated June 14th and marked "Personal and Unofficial", setting forth in detail the conversations which he has had with Doctor Uriarte and offering to mediate between the United States and El Salvador; but expressing the wish not to take any official action without first learning my opinion as [to] the possibility of success thereof. During the conversation which I had with Doctor Puig on June 15th, I told him I had just received his letter and would be glad to transmit it to the Department for its information and instructions.

Doctor Puig has told me on two occasions that his opinion regarding President Martínez and his administration of El Salvador has undergone a complete change since the conversations he had in Washington with the Honorable Francis White, then Assistant Secretary of State (see my despatch number 157 of June 2, 1933, and the Department's instruction number 539 of February 17, 1932,⁶ file 816.01/94), and that he was convinced that President Martínez had done an excellent job in El Salvador. He said that, under the circumstances, he hoped we would see fit to recognize him.

Doctor Puig said there are, in his opinion, two important reasons for our recognizing the régime of President Martínez: (1) the necessity of having the greatest possible harmony among all American States prior to the Seventh Conference of American States at Montevideo in December of this year, and (2) the desirability of preventing revolution in El Salvador and other Central American countries.

As to point No. 1, Doctor Puig referred to the action of Mexico in agreeing to renew diplomatic relations with Nicaragua, Peru, and Venezuela, in accordance with the intention expressed in the message of President Rodríguez in reply to President Roosevelt's circular telegram sent to heads of governments, and said that Mexico did not wish any blame to accrue to her because of lack of harmony which might result at Montevideo as a consequence of her not being on the most friendly terms with the other nations of this continent. He expressed the opinion that if the United States should see fit to enter into diplomatic relations with El Salvador, not only would we have, obviously, better relations with that country, but we would by our action discourage intrigues against El Salvador on the part of other Central American nations desirous of pleasing us by endeavoring to show approval of our policy of non-recognition of General Martínez. He said that he had information that relations between El Salvador and Guatemala were strained and he expressed the opinion that these

⁶ Not printed.

relations would be materially improved were we to extend formal recognition.

As to point No. 2, Doctor Puig said that a few days ago he had received a visit from Señora de López Gutierrez, who, he said, is the widow of a former President of Honduras, and who was proceeding to the United States with a view to securing financial and armed assistance from private parties to foment an insurrection in Honduras. Doctor Puig said that she had failed to obtain assistance in Mexico. He said that political conditions in Central America were sufficiently unsettled as to bring about revolution in some or in all countries should an insurrection start in El Salvador. He said that if we should recognize the present government of El Salvador, this danger would be averted.

I have the honor to transmit herewith a copy and a translation of Doctor Puig's letter to me of June 14th, together with copies and translations of the enclosures thereto, a copy of my reply to Doctor Puig, and a copy of a memorandum⁷ prepared by Colonel Moreno of the Embassy staff setting forth the situation regarding the relationship between the United States and El Salvador, as it appears to us in Mexico. The enclosures to Doctor Puig's letter are tabulated as follows:

<i>Copy:</i>	1-A	<i>Translation:</i>	2-A
	1-B		2-B
	1-C		2-C
	1-D		2-D
	1-E		2-E
	1-F		2-F
	1-G		2-G

A.—Memorandum regarding the legal status of the Government of President Martínez and regarding the present status of the efforts to secure recognition.

B.—Clipping from the newspaper *El Dia* of El Salvador, of May 22, 1933, reproducing an article from *La Información* of New York City.

C.—News item from the newspaper *Patria* of El Salvador, of December 31, 1931, regarding the visit to that country of Mr. Jefferson Caffery.⁸

D.—Copy of a cablegram sent by the Salvadorean Foreign Office to the Legation in Paris, June 7, 1933.

E.—Memorandum regarding the renewal of the service of the foreign debt of El Salvador.

F.—List of the countries which have recognized the Government of El Salvador.

G.—List of the courtesies and exemptions extended to the American Legation in El Salvador during the Martínez régime.

⁷ None of the enclosures is printed.

⁸ Special representative of the Department in El Salvador, 1931-32.

I venture to add my personal comments to the material mentioned above, which I am transmitting herewith:

In order that there may be no misunderstanding of the attitude which I have assumed in my talks with Doctor Puig, I desire to clarify the statement which appears on page 2 of the translation of his letter of June 14 (Enclosure No. 2), reading as follows:^{8a}

"Without indicating to Doctor Uriarte that the opinion originated with you and with Counselor Lane, I told the representative of El Salvador the other day that in my opinion the sole technical difficulty in the way of the Department of State lies in the Treaties signed in Washington—advancing, moreover, as just my own opinion, the suggestion that perhaps the easiest course would be for El Salvador to secure the denunciation of those Treaties by the signatory countries, thus removing the legal and moral [*the moral and not the legal*] obstacle which the White House may have encountered for the recognition."

While it is true that Mr. Lane and I indicated that in our opinion the existence of the Treaty of 1923,⁹ which we supported even though we are not a party thereto, constituted the greatest difficulty to our recognition of General Martínez, we did not suggest, as might be inferred from Doctor Puig's letter, that El Salvador should secure the denunciation of the Treaty by the signatory countries.

I am in agreement with Doctor Puig that it would be highly advisable in the interest of harmony among American nations for us to maintain the friendliest possible relations with all countries represented at the forthcoming Conference at Montevideo. Such friendly relations would, it seems clear, be more easily maintained should we have normal diplomatic relations with all the attending States.

In view of what has been the policy of the Government of the United States with respect to the recognition of new governments (see paragraph E on page 7 of Colonel Moreno's memorandum—Enclosure No. 4 of this despatch), and in view of El Salvador's having apparently complied with the conditions which have been required for our recognition,—and having in mind the emphasis placed by President Roosevelt in his broadcast of May 7, 1933¹⁰ on "a re-establishment of friendly relations and greater confidence between the nations" (see paragraph F of Colonel Moreno's memorandum), would it not be well, unless the Department sees some insuperable objection, to agree to Doctor Puig's taking such steps as he wishes with a view to restoring the friendly relations which previously existed between the United States and El Salvador?

Respectfully yours,

JOSEPHUS DANIELS

^{8a} This letter was marked "personal and not official." (711.12/8-3148)

⁹ Treaty of peace and amity between Central American countries, signed February 7, 1923, *Conference on Central American Affairs, Washington, December 4, 1922-February 7, 1923* (Washington, Government Printing Office, 1923), p. 287.

¹⁰ Department of State, *Press Releases*, May 13, 1933, p. 333.

816.01/312

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)*

WASHINGTON, July 13, 1933.

Mr. Cohen, Chargé d'Affaires ad interim of Chile, in calling today, said that he had a cable from his Government that it was considering recognizing the Martínez regime in Salvador and would like to know what the position of the United States Government was. I told Mr. Cohen that at the request of the Central American countries we had supported the principles of the 1923 treaty regarding non-recognition of revolutionary governments. The other four Central American governments had unanimously interpreted the treaty as barring Martínez from recognition and we have taken the same attitude. We felt that the treaty had unquestionably been of benefit to the Central American countries through discouraging revolution and assisting them to promote stability.

Mr. Cohen said that the Martínez administration had extended recognition to Davila when the latter came into power in Chile and he believed that the Davila government had likewise extended recognition to Martínez. He thought, therefore, that as the present Chilean government was in the line of succession from the Davila government, Chile had in fact already extended recognition to Martínez. However, he understood that Martínez was carrying on considerable propaganda for recognition from all the American States and probably wanted some positive act of recognition on the part of Chile. I inferred that there is not much doubt that Chile will formally extend recognition.

EDWIN C. WILSON

713.1311/173

The Chargé in El Salvador (McCafferty) to the Secretary of State

No. 320

SAN SALVADOR, July 13, 1933.

[Received July 19.]

SIR: I have the honor to transmit herewith a translation of an article which appeared in *La Prensa* of San Salvador on July 12, 1933¹¹ and which quotes a news item from *La Tribuna* of San José, Costa Rica, alleging that certain unnamed Latin American diplomats in Washington are making an effort to ascertain whether the Department of State would approve of the calling of a conference for the purpose of revising the General Central American Treaty of Peace

¹¹ Not printed.

and Friendship signed in Washington in 1923 so that the denunciations of Costa Rica and El Salvador will not become effective on January 1, 1934. Similar articles appeared in nearly all the local newspapers and it is believed that the information was given out by the *de facto* Minister of Foreign Affairs of El Salvador.

It would be helpful to this Legation to know whether there is any truth in the statements contained in the above mentioned article or whether it is simply propaganda put out by the Salvadoran Foreign Office in an endeavor to obtain recognition for the Martínez régime.

I am of the opinion that the *de facto* Government of El Salvador is making strong efforts to get one of the three Central American Governments which are upholding the 1923 Treaty to suggest the convocation of a conference to revise the Central American Pacts in order that the present Salvadoran administration might be recognized, but that the Salvadoran Foreign Office is very doubtful whether such a step would be approved by the State Department and feels that the plan would be unsuccessful unless it had the moral support of the United States.

Respectfully yours,

W. J. McCafferty

816.01/302

*The Acting Secretary of State to the Ambassador in Mexico
(Daniels)*

No. 97

WASHINGTON, July 17, 1933.

SIR: The receipt is acknowledged of your strictly confidential despatch No. 230, dated June 16, 1933, regarding Dr. Puig's offer of mediation in order to bring about recognition by the United States of a Government in El Salvador. Please say to Dr. Puig that your Government appreciates his friendly offer. Please repeat to him (for it is assumed that you have already fully and sympathetically explained to him the policy that this Government has consistently followed for the past several years) that it is the policy of your Government as regards recognition of Governments coming into power in Central America through a revolution, to be guided by the principles established by the Central American states themselves in the Treaty of 1923 in their effort to achieve stability and discourage revolutionary disturbances in their countries. Please say to Dr. Puig that your Government has, ever since the revolution of December, 1931, been desirous of being in a position to recognize a Government in Salvador consistently with the obligations your Government has assumed toward the other Central American states. The Government of General Martínez is, of course, barred

from recognition by the 1923 Treaty, as is evidenced by the unanimous refusal of recognition to it on the part of the other four Central American states. If Dr. Puig therefore desires to bring about a state of affairs under which the United States Government could extend recognition to a Government in El Salvador, he might wish to consider the advisability of counseling General Martínez to step aside from the presidency in order that one of the Designates might assume that office who would be eligible for recognition under the principles of the 1923 Treaty. You may, if you judge it advisable, mention this to Dr. Puig.

I am at a loss to understand the statement at the foot of page 5 of your despatch—" . . . in view of El Salvador's having apparently complied with the conditions which have been required for our recognition". In this connection please refer to the Department's telegram No. 22 of February 4, 1932.¹²

I also have some difficulty in appreciating the exact significance of Dr. Puig's statement in his letter to you "that it may not be possible in all cases among us to be excessive sticklers for institutional rules". After all, when there is a commitment by one Government to other Governments, assumed at their request, to support their policy in an effort to realize for themselves the benefits of peace and stability, such a commitment cannot frivolously be put aside. Such action would, to say the least, cast some doubt upon the reliance which could in the future be placed upon the good faith of the Government in question.

The memorandum attached as enclosure No. 1 to Dr. Puig's letter states under part 2: "Dr. Paz Baraona, Ex-President of Honduras, and Minister Plenipotentiary of his country in Washington, solemnly promised the Salvadorean Chancery to undertake active measures in favor of recognition. This, then is a factor upon which we can count". As of possible interest I quote herewith from a memorandum of a recent conversation between Dr. Paz and the Chief of the Latin American Division of this Department:

"Dr. Paz then said that he was instructed by his Government to state that his Government supported fully the 1923 Treaty of Peace and Amity and hoped to have it continued in force. He said that Honduras had been traditionally the battlefield for Central American wars. The treaties of 1907 and 1923 had put an end to this, and Honduras regarded the 1923 treaty as its salvation. He said that during his own presidential term he could never have held the free and fair elections that were held and have turned over peacefully the Government to his successful opponent of the opposing party without the influence exerted through the existence of the 1923 treaty and the moral support given to it by the United States.

¹² Not printed.

"I inquired whether Honduras found any embarrassment in the situation growing out of the non-recognition of Martínez. Dr. Paz said he did not think so. He said that Carias had friendly sentiments regarding Martínez, since the latter had supplied arms and ammunition to put down the revolution shortly before Carias assumed the presidency, and when Carias was in charge of the Honduran troops. I inquired whether the Honduran Government had any plan in mind to deal with this general situation arising out of the non-recognition of Martínez and the fact that the 1923 treaty had been denounced by both Costa Rica and El Salvador. Dr. Paz said he did not know. I said that our policy was, as it had been, to do whatever we appropriately could to assist the Central American republics, if they so desired, in their own efforts to promote peace and stability."

Furthermore, my information is to the effect that the Governments of Guatemala and Nicaragua also desire to maintain the treaty in force. In view of this, Dr. Puig's suggestion mentioned in his letter to you in the following terms

"Without indicating to Doctor Uriarte that the opinion originated with you and with Counselor Lane, I told the representative of El Salvador the other day that in my opinion the sole technical difficulty in the way of the Department of State lies in the Treaties signed in Washington—advancing, moreover, as just my own opinion, the suggestion that perhaps the easiest course would be for El Salvador to secure the denunciation of those Treaties by the signatory countries, thus removing the legal and moral [*the moral and not the legal*] obstacle which the White House may have encountered for the recognition."

hardly seems sound advice. The Department was relieved to note from your despatch that you did not, as might have been inferred from Dr. Puig's letter, make this suggestion to him.

Enclosure No. 3 to Dr. Puig's letter, an article from *La Patria* of San Salvador, dated December 31, 1931, states that Mr. Jefferson Caffery, then in San Salvador, "categorically stated—that the Government of the United States will recognize El Salvador" (meaning, presumably, the Government of General Martínez). Obviously this statement is false.

If there is any doubt in the Embassy as to the Department's position in this matter, reference to the Department's No. 22 of February 4, 1932, 6 p. m., and to instruction No. 881, of December 16, 1932,¹³ with which was enclosed copy of telegram to the American Legation at Guatemala dated November 22, 1932,¹⁴ should make the Department's position amply clear. This position has not been changed.

Very truly yours,

WILLIAM PHILLIPS

¹³ Neither printed.

¹⁴ Not printed.

816.01/321

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 404

MEXICO, July 26, 1933.

[Received August 3.]

SIR: With reference to the Department's instruction number 97 of July 17, 1933, concerning the offer of the Minister for Foreign Affairs, Doctor José Manuel Puig Casauranc, to mediate in order to bring about recognition by the United States of a government in El Salvador, I have the honor to transmit herewith a copy of a personal and unofficial letter dated July 25, 1933, which I handed to Doctor Puig.¹⁵

I told Doctor Puig that the position of my Government had always been that it was bound by the 1923 Treaty of Peace and Amity, under which the recognition of General Martínez as President of El Salvador is barred, and that this position has not changed.

Doctor Puig replied that he had apprehended that this might be the position of my Government.

I thanked Doctor Puig for his friendly interest and offer of cooperation.

Respectfully yours,

JOSEPHUS DANIELS

713.1311/173

The Secretary of State to the Chargé in El Salvador (McCafferty)

No. 133

WASHINGTON, August 16, 1933.

SIR: The receipt is acknowledged of your despatch No. 320, dated July 13, 1933, with respect to an article published at San Salvador concerning revision of the Central American General Treaty of Peace and Amity of 1923 and recognition of the *de facto* Government of El Salvador. In that connection you are informed that the Department has not recently been approached by "Latin American diplomats" in Washington for the purposes indicated in the translation of the article from *La Prensa* of San Salvador which you enclosed. However, on June 29, 1933, Dr. Paz Baraona, the Honduran Minister in Washington, spoke to the Chief of the Latin American Division of this Department concerning that Treaty and the following is quoted for your information from the memorandum of that conversation:

"Dr. Paz said that he was instructed by his Government to state that his Government supported fully the 1923 Treaty of Peace and Amity and hoped to have it continued in force. He said that Honduras had been traditionally the battlefield for Central American wars. The treaties of 1907 and 1923 had put an end to this, and Honduras regarded the 1923 Treaty as its salvation. He said that

¹⁵ Not printed.

during his own presidential term he could never have held the free and fair elections that were held and have turned over peacefully the Government to his successful opponent of the opposing party without the influence exerted through the existence of the 1923 treaty and the moral support given to it by the United States.

"I inquired whether Honduras found any embarrassment in the situation growing out of the non-recognition of Martínez. Dr. Paz said he did not think so. He said that Carias had friendly sentiments regarding Martínez, since the latter had supplied arms and ammunition to put down the revolution shortly before Carias assumed the presidency, and when Carias was in charge of the Honduran troops. I inquired whether the Honduran Government had any plan in mind to deal with this general situation arising out of the non-recognition of Martínez and the fact that the 1923 Treaty had been denounced by both Costa Rica and El Salvador. Dr. Paz said he did not know. I said that our policy was, as it had been, to do whatever we appropriately could to assist the Central American republics, if they so desired, in their own efforts to promote peace and stability."

The following is for your strictly confidential information. The Embassy at Mexico City, in a despatch dated June 16, 1933, informed the Department of an offer of mediation made by Dr. Puig, the Mexican Minister of Foreign Affairs, in order to bring about recognition by the United States of the regime of General Martínez. In reply the Embassy was instructed to explain fully to Dr. Puig the policy which this Government has consistently followed for the past several years and to make it clear to him that as regards recognition of governments coming into power in Central America through revolution, the Government of the United States is guided by the principles established by the Central American States themselves in their Treaty of Peace and Amity of 1923 in an effort to achieve stability and to discourage revolutionary disturbances in their countries. It was pointed out that the Government of General Martínez is, of course, barred from recognition by the Treaty of 1923, as is evidenced by the unanimous refusal of recognition to it on the part of the other four Central American States. The Embassy was further informed that there has been no change in the policy of this Government.

Very truly yours,

For the Secretary of State:
JEFFERSON CAFFERY

713.1311/176

The Minister in Costa Rica (Eberhardt) to the Secretary of State

No. 1636

SAN JOSÉ, September 16, 1933.

[Received September 21.]

SIR: I have the honor to report that on several recent occasions the local press has published stories to the effect that a conference

of the Central American Republics will be held in the near future to consider the 1923 Treaty and the recognition of the Martínez régime in El Salvador. One article said that even if the Conference fails to materialize, Costa Rica will recognize Martínez shortly after the first of the year. In discussing the reports with one of the leading editors of San José, I was informed that this occasional publicity is inspired and paid for by General Martínez, which confirmed my own surmise.

In a conversation yesterday with Foreign Minister Pacheco, who is convalescing in Alajuela from his recent serious illness, he declared that the information contained in the newspaper reports was in fact along the line he (and presumably El Salvador) has been working ever since the failure of his mission to Guatemala in November, 1932.

It therefore appears likely that developments of this nature can be looked for within the next three or four months, even though plans do not seem to have taken on definite form as yet, so far as this Government is concerned. Whether or not a Conference is held, I look for Costa Rica to recognize the Martínez régime as soon as its denunciation of the General Treaty of Peace and Amity becomes effective.

Something will depend, however, on the health of Minister Pacheco, who is after all the principal pro-Salvador and anti-Treaty influence in Costa Rica today. If his health forces him out of his office and a successor such as Octavio Beeche with different ideas on the subject is appointed, Costa Rica's viewpoint may possibly change. This possibility is remote at best, however, since President Jiménez' strong feeling against the Treaty is well-known.

Respectfully yours,

CHARLES C. EBERHARDT

713.1311/185 : Telegram

The Secretary of State to the Minister in Costa Rica (Sack)

WASHINGTON, October 31, 1933—5 p. m.

30. Your despatch No. 5, October 20, and telegram 34, October 28, 3 p. m.¹⁶ As the Department stated in its telegram No. 44 of November 22, [1932] 7 p. m.,¹⁷ to the Legation in Guatemala the decision in the matter of the denunciation, modification or continuance of the Treaty of Peace and Amity appears to be one for the Central American Governments themselves to determine. We feel that Costa Rica has freely exercised its right to denounce the Treaty and therefore do not desire that you should even unofficially suggest that it rescind its action or otherwise indicate what course of action it should pursue with respect to the Treaty.

HULL

¹⁶ Neither printed.

¹⁷ *Foreign Relations*, 1932, vol. v, p. 336.

HAITI

NEGOTIATIONS REGARDING CONTROL OF HAITIAN FINANCES, HAITIANIZATION OF THE GARDE, AND WITHDRAWAL OF AMERICAN MARINES; AGREEMENT OF AUGUST 7, 1933, AND FURTHER NEGOTIATIONS FOR ENDING AMERICAN FINANCIAL CONTROL

838.51/2558 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, November 11, 1932—noon.

[Received 6 p. m.]

128. At his request I called on the President yesterday accompanied by Heath¹ and Pixley.² The day previous Blanchet³ had submitted to me a note in which the Government proposed to discontinue payment on the amortization of the debt for a period of 4 years from April 1st, next, in view of the misery prevailing throughout the country and the low price of the two principal commodities. I had told Blanchet and the President that we could not give our approval to any such suggestion and proposed that the note be withdrawn. On our visit yesterday the President agreed to withdraw the moratorium proposal and in its place Hibbert, the Minister of Education [*Finance*], who with Blanchet was also present urged that funds be made available immediately to start work on the Artibonite irrigation project. To this end he asked that we ascertain the present status of De la Rue's⁴ negotiations for a loan from the National City Bank. He felt that because of the recent heavy decline in coffee prices it was imperative for Government to put money into circulation through public works. The President himself urged the Legation to use its good offices to expedite and assist the Government's application for an Artibonite loan. He understands that such a loan must not extend the period of the financial control now exercised. He then went on to ask that \$500,000 be made available immediately from the cash reserves to start the development, promising that this amount would be returned from the proceeds of the proposed loan.

¹ Donald R. Heath, Second Secretary of Legation at Port-au-Prince.

² Rex A. Pixley, Deputy Financial Adviser-General Receiver for the Haitian Government.

³ A. Blanchet, Haitian Secretary of State for Foreign Affairs.

⁴ Sidney de la Rue, Financial Adviser-General Receiver for the Haitian Government.

Pixley and I are both of the opinion that early development of the Artibonite, with a view of providing additional products for export and diminishing the present dependence on coffee, is desirable and practical provided that the Government will adopt effective measures to assure the proper utilization of the land to be irrigated. The Government is working on, and is expected shortly to submit, a plan showing the sequent steps that would be taken in the proposed development.

I recommend that De la Rue be requested to resume as soon as practicable his negotiations with the National City Bank, and that the Legation be informed by telegraph of the status of the matter.

With regard to the suggestion that \$500,000 be made available from the cash reserve it is obvious that the Financial Adviser cannot approve in advance use of funds for this purpose until the loan is assured.

In bringing the above to the Department's attention I should state that, in talking with Pixley, he stresses the fact that there is little probability that this project can be carried out from revenues in the near future and that the Treasury is not in a position to take care of the expenses from its present resources. A loan seems to be the only solution. Haitian business of the National City Bank has been very profitable over the past 10 years. The Government's fiscal record indicates that the desired loan could be carried easily in normal times and even at present debt charges consume only about 27 percent of the budget. In view of this it does not seem that the proposal made to the bank is unreasonable and the Department may wish, if the matter is referred to it, informally to support Mr. De la Rue's position.

ARMOUR

838.51/2558 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, November 14, 1932—noon.

75. Your 128, November 11, noon. The Department approves your action in having Haitian note proposing discontinuance of amortization payments withdrawn.

With reference to funds for the Artibonite project, the Department feels that such financing is a matter for the Haitian Government to work out in conjunction with the Financial Adviser, who has undoubtedly talked over the project with the bankers likely to be interested. It should be an easy matter for the Government to communicate with De la Rue to express its views and to learn the results of any recent negotiations with the bankers.

It is of course understood that any loan of whatever nature, as well as the use of funds from the cash reserves, would require the Department's approval. Until such time as a concrete proposal for a loan or the measures under which funds from the cash reserve would be used, are presented to the Department for consideration, the Department does not feel called upon to express an opinion.

STIMSON

838.51/2560 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, November 19, 1932—2 p. m.

[Received 4 p. m.⁵]

129. Reference to my telegram No. 128, of November 11, noon. The Haitian Government yesterday presented a note requesting the approval and assistance of the United States in its efforts to obtain a loan from the National City Bank to provide \$2,000,000 for a series of public works designed to increase and diversify exports and production and alleviate the prevailing economic distress.

The public works contemplated include the Artibonite irrigation project, to cost \$1,364,000, drainage of the Plain of the North, 12 new roads, a normal school and an extension of the telephone system of Port-au-Prince.

The note also asks that pending receipt of the loan the United States authorize the immediate expenditure of \$500,000 from Haitian Treasury reserves to begin the public works contemplated.

A copy of the note with estimates and descriptions of the various projects went forward by air mail today.⁶

Fixley and I are of the opinion that the development of some further products such as bananas as a supplementary crop to coffee is most important if some means can be developed to accomplish it. For that reason we feel that since no funds from other sources are available for that purpose a loan for irrigation of the Artibonite is desirable provided that study of the engineering plans and the measures proposed by the Government to insure that the land to be irrigated will be properly utilized reveal them to be sound. The Government proposes that the land owners must plant, under the supervision of the Service of Agricultural Extension now under direction of Doctor Barker, a certain portion of their staple properties to crops for export such as long cotton or bananas, in which latter product interest is now being shown by the American market.

⁵ Telegram in two sections.

⁶ Not printed.

An analysis of the Haitian proposals and projects will be sent in the air mail leaving Port-au-Prince November 24th.⁷

ARMOUR

838.51/2568 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, December 6, 1932—2 p. m.

[Received 3:30 p. m.]

132. The President leaves for Aux Cayes early Thursday, December 8th, where he is to make an important speech in connection with the Haitianization of the Department of the South. He wishes to mention in this speech a program of public works along the lines set forth in the Haitian note of November 18th (despatch No. 6, November 18th)⁸ even though it may not be possible for him to refer in definite terms to the exact nature of the work or to mention dates, et cetera.

Pixley has received from De la Rue a letter giving the situation to December 2nd which indicates that there is considerable interest on the part of the fruit companies and the bank in the Artibonite project, but nothing very definite or to indicate that the loan would be forthcoming within the immediate future.

If, as Pixley thinks probable, the President asks me before his departure how my Government views the proposal as presented in the note above mentioned I consider it very important to be in the position of at least having some intimation of the Department's views.

Should the Department be prepared at this time to approve with safeguarding provisions the application of the Haitian Government for permission to increase the national debt in order to accomplish specified productive public works, I would of course in conveying this information to the President make clear to him that this approval would not necessarily have any effect as regards the willingness of the bankers, with whom the Haitian Government is now negotiating, to grant the desired loan.

ARMOUR

838.51/2569

The Secretary of State to the Minister in Haiti (Armour)

No. 10

WASHINGTON, December 8, 1932.

SIR: The Department has received and has given attentive study to your despatches Nos. 6, 8, and 9, dated respectively November 18, 19, and 25, 1932,⁹ regarding the desire of the Haitian Government to obtain

⁷ Not printed.

⁸ Not printed; but see telegram No. 129, November 19, 1932, 2 p. m., *supra*.

⁹ None printed.

a loan of approximately two million dollars for the purpose of embarking on a program of public works, notably the irrigation of the Artibonite plain.

The Department had a conversation regarding this matter with Mr. de la Rue, Financial Adviser to the Haitian Government, on November 26. A copy of the memorandum of this conversation is enclosed herewith for your information.¹⁰ The Department has had no further communication from Mr. de la Rue, nor has it been approached in any manner by bankers who may be interested in the project of the Haitian Government.

Your despatch No. 6 enclosed a copy of the note of the Haitian Government to you dated November 18, 1932,¹⁰ regarding this proposal. There is enclosed herewith the text of a note which the Department desires you to send to the Haitian Government in reply. If, after examining this reply, you wish to make any comment or suggestion before transmitting it to the Haitian Government, please communicate with the Department by cable.

The Department appreciates the reasons why it might be advisable for the Haitian Government to undertake this projected program of public works construction, subject to the conditions and recommendations outlined in your despatches. The Department is prepared to give sympathetic consideration to the matter, but its action must necessarily be guided by certain principles inherent in its relations with Haiti. It is, for instance, obvious that the United States Government cannot in any sense urge or recommend to bankers that they undertake this business for Haiti. This is a matter for the Haitian Government to negotiate with the bankers who may be interested, and for the latter to decide from the standpoint of their own interests. If eventually this question of the loan and the public works construction should be worked out satisfactorily, this Government would of course be prepared to do whatever it appropriately could to assist Haiti, if the Haitian Government so desired, in such matters as that of recommending an expert to advise on the irrigation project, as suggested by you.

Furthermore, this Government regards it as of prime importance that before consenting under Article VIII of the Treaty of 1915¹¹ to any increase in the public debt of Haiti, there should be a definite agreement with the Government of Haiti regarding the system of financial administration to be in effect following the expiration of the Treaty of 1915 and until such time as all bonds issued under the Protocol of October 3, 1919,¹² have been retired or refunded. It should

¹⁰ Not printed.

¹¹ *Foreign Relations*, 1916, p. 328.

¹² *Ibid.*, 1919, vol. II, p. 347.

seem obvious to the Haitian Government that before the United States Government can agree to any further responsibilities respecting Haitian finances it must know where it stands regarding its responsibilities as they will exist after the expiration of the Treaty of 1915. As is pointed out in the note enclosed herewith, to be sent to the Haitian Government, Protocol B attached to the Treaty signed September 3, 1932, between the Haitian Government and the United States¹⁴ contains appropriate provisions for such financial administration after the expiration of the 1915 Treaty. Whether the Haitian Government will be disposed to reopen with the Legislature the question of ratification of this Treaty, or whether it will desire to propose certain modifications in the Treaty which would not affect what this Government regards as the essential elements of financial administration, this Department is not in a position to determine. It would, however, seem clear that there is an inconsistency in the Haitian attitude in requesting on the one hand the assistance and approval of this Government in obtaining a further loan under the provisions of the Treaty of 1915 and the Protocol of 1919, and at the same time making no effort to place on a definite basis the system of financial administration which under the Protocol of 1919 will have to be put in effect upon the expiration of the 1915 Treaty. This Government regards it as essential that before any approval on its part can be given to the proposed increase in the Haitian public debt, and entirely apart from other considerations which may or may not warrant this approval being given, there should be an agreement between the two Governments regarding the measures of financial administration to be in effect following the expiration of the Treaty of 1915.

Very truly yours,

For the Secretary of State:

FRANCIS WHITE

[Enclosure]

Draft Note to the Haitian Government

I duly transmitted to my Government a copy of Your Excellency's note of November 18, 1932, with enclosures, and am now in receipt of instructions to reply to Your Excellency as follows:

The Government of the United States has given careful and sympathetic consideration to the note of the Minister for Foreign Affairs of Haiti dated November 18, 1932, with enclosures, regarding the desire of the Government of Haiti to obtain a loan of approximately \$2,000,000 for the purpose of undertaking the construction of certain public works, notably the irrigation of the Artibonite plain. It has noted that the Haitian Government has instructed its Financial

¹⁴ *Foreign Relations*, 1932, vol. v, p. 671.

Adviser to consult with bankers concerning this matter and that the Government of Haiti "will duly appreciate the approval and assistance which the Government of the United States may extend to it in the negotiations for the loan of \$2,000,000."

There has as yet been no approach to the Department of State by bankers who may be interested in financing this proposition, and, of course, until such time as bankers interested in the matter place a definite proposal before it, there is no action which the United States Government can appropriately take in the matter. Your Excellency may be assured, however, that if, and when, such a definite proposal is submitted, it will receive the careful consideration warranted by the request of the Haitian Government.

With regard to the suggestion that \$500,000 be withdrawn from the Treasury reserves to begin the public works program, it would seem most unwise to initiate work on such a program until such time as the Haitian Government were assured that the funds required for its complete realization would be provided. Moreover, it appears that the cash reserves of the Treasury amount at this time to but little more than \$500,000, and while this year's budget appears to be balanced it is yet too early in the fiscal year to determine whether actual revenues will approximate the budget estimates.

It has been noted that the plan outlined in the note to the Haitian Minister for Foreign Affairs contemplates the issue of bonds of Series D of the 1922 loan in the amount of \$5,000,000, to be used to retire the bonds of Series B now outstanding in the hands of the public, and to furnish collateral for the projected loan of \$2,000,000. It is noted that the proposed Series D bonds would be amortized at a date not later than that of the amortization of all other outstanding bonds of the 1922 loan, and that therefore the issue of these proposed bonds would not extend the period of American financial control in Haiti. This would of course be essential. In the note dated October 7, 1932, which *Chargé d'Affaires Heath* addressed to Your Excellency, it is stated that this Government "desires to limit its responsibilities in connection with Haitian financial matters to the minimum required by the existing obligations undertaken by both Governments." It is, however, obvious that the proposed Series D bonds, if issued, could not be amortized until some time subsequent to May 3, 1936, the date on which the Treaty of 1915 expires. It is the view of the Government of the United States that before appropriate consideration could be given to the question of agreeing, under Article VIII of the 1915 Treaty, to an increase in the public debt of Haiti, it would be necessary to reach a definite agreement with the Haitian Government respecting the measures of financial administration to be in effect following the expiration of the Treaty of 1915 and until the

total retirement or refunding of all bonds issued in accord with the Protocol of October 3, 1919. It will be readily perceived by the Haitian Government that the Government of the United States could not be expected to assume further responsibilities in respect of Haitian public finance in the absence of an exact definition of what the situation will be regarding its responsibilities in the period subsequent to the expiration of the Treaty of 1915. The Government of Haiti will recall, in this connection, that the Treaty signed on September 3, 1932, as a result of negotiations between the two Governments, provided in Protocol B thereof for such a definite agreement as to financial administration.

838.51/2570

The Minister in Haiti (Armour) to the Secretary of State

No. 22

PORT-AU-PRINCE, December 9, 1932.

[Received December 12.]

SIR: I have the honor to acknowledge receipt of the telegraphic instruction No. 77 of December 7, 2 P. M.,¹⁵ stating that the text of a note in reply to the communication of the Haitian Government of November 18, 1932, is being sent to the Legation by airmail. The telegram states that it is the Department's firm view "that before appropriate consideration can be given to the question of agreeing under Article VIII of the 1915 Treaty to an increase in the public debt in Haiti it will be necessary to reach a definite agreement with the Haitian Government respecting the measures of financial administration to be in effect following the expiration of the Treaty of 1915 and until the total retirement or refunding of all bonds issued in accordance with the protocol of October 3, 1919."

I recognize that this is the logical view of the case. The Haitian Government cannot reasonably expect the United States to approve its application to increase the public debt while it has as yet failed to give assurance that it intends or will be able to provide the agreement regarding financial administration after 1936 which it is obligated to provide under the Protocol of 1919. While the Haitian Executive signed a treaty satisfactory in that respect, the Legislative Body, which is in office until 1936, refused to ratify it. Moreover, the Legislature rejected it "in principle"—that is to say it is apparently determined to disregard the obligation to provide a financial agreement which was one of the principal guarantees given in order to obtain the loan of 1922.

¹⁵ Not printed; see instruction No. 10, December 8, 1932, to the Minister in Haiti, *supra*.

While therefore the position taken by the Department is logically sound, nevertheless I feel that it would be a mistake at this time to present a note along the lines of the Department's telegram at least until the Haitian Government is assured that the bankers are ready to grant the desired loan.

To present a financial agreement as a condition precedent to consideration of the application for approval of a loan when there is as yet no assurance that the loan will be forthcoming would have, I feel, a most unfortunate effect. The refusal of the condition, under existing circumstances, could, I believe, be taken for granted.

If there were definite assurance of a loan, it is possible that the President would accept the condition and it is also perhaps possible that the Legislature might ratify an agreement regarding financial and other pending issues together with the loan contract, particularly if the bankers and the Department would consent to an advance, prior to ratification, of from \$100,000 to \$200,000 to begin work on the Artibonite development and, possibly, on some of the other minor public works proposed by the Haitian Government in its note of November 18. Probably a special session would be called to consider the loan.

As I have pointed out in previous despatches, the President is greatly discouraged as a result of his loss of prestige and popularity which occurred, he feels, largely as a result of the submission and legislative rejection of the Treaty of September 3. He has not as yet succeeded in understanding why the Government is not allowed temporarily to default on amortization or to take from the reserves in order to obtain funds to execute needed public works which would be productive and would alleviate, as he sincerely wishes to do, the prevailing economic distress. He is pessimistic regarding the chances of obtaining a loan, having already, earlier in the year, been categorically refused one by the National City Bank with which the Government is again negotiating. The loan of 1922 still being a controversial matter he has come slowly to the solution of a new loan, his other proposals having been rejected.

At the same time he evidently apprehends difficulties with the Legislature unless he can actually start the public works before the loan contract is submitted to the approval of that body. During the past year, the President has gradually been approaching a policy of cooperation with American officials in Haiti. Since last July this policy has been definite with very good results, notably in regard to the budget. The present cabinet which is the best we have had to work with since the Borno regime is an expression of this policy. The President is reported to have been extremely irritated over his failure to receive any favorable news concerning the application for funds for

public works which he could use in his speech today at Aux Cayes. It is somewhat to be feared that, feeling that a policy of cooperation has brought him as he sees it, loss of popularity and has not resulted in this very desirable project, in which he has displayed more active interest than in anything else that has occurred during his administration, he may dismiss his cabinet (certain members of which, notably . . . he blames for misleading him as to reliance to be placed on American cooperation) and return to his previous stand of nationalistic opposition to the United States, arguing that he would thereby regain lost popularity. He perhaps remembers also that the chief achievement of his administration, the popular Accord of August 5, 1931,¹⁶ was obtained with a "nationalistic" cabinet. While I believe that eventually he would return to a cooperative attitude we might re-experience a fairly prolonged and unfortunate period of useless strife with the Government.

Personally I do not feel that we should risk this latter possibility nor that we should do anything that would endanger the possibility of obtaining this loan. The development of the Artibonite, under the plan and safeguards which the Government is willing to provide, gives very good promise of practical results and increased revenues which are very necessary in view of the uncertainty regarding coffee, on which the Haitian economy depends. To provide new production is also, in the final analysis, in the interest of the bondholders in that an improved economic situation assures the necessary revenues to meet obligations under the loan. Finally I believe that compliance with the Haitian Government's request for approval of a loan and the expenditure of such funds for the public works envisaged might so improve our relations with the Haitian Government that it would make possible the conclusion, at later date, of a satisfactory agreement regarding financial administration after 1936.

In view of the foregoing, I therefore propose:

That no definite reply be made to the Haitian Government at this time unless there is assurance that the bankers are willing to provide the desired loan subject to the Department's approval.

That, while it is recognized that we cannot urge or recommend the loan to the bankers, the Department nevertheless answer the latter's request, which I assume will be made, for information as to the Department's attitude on the proposed financing, that in view of the profitable nature of the bank's business relationship with the Haitian Government it is felt that they should at least give very careful study to the application, if for no other reason than in the interest of the bank's own position in Haiti.

That, in preference to joining in the proposed note the issues of an agreement regarding future financial administration to approval of

¹⁶ *Foreign Relations*, 1931, vol. II, p. 403.

the application for an increase in the public debt, I be authorized to explain the situation orally to the President and ask that a definite statement be made in a note from the Minister for Foreign Affairs to the effect that the Haitian Government recognizes its obligation under the Protocol of 1919 to provide an agreement along the general lines of Protocol B of the Treaty of September 3, 1932, regarding the measures of financial administration to be in effect after the expiration of the Treaty of 1915 and that it intends to fulfill this obligation at the earliest practical date. I am not certain that the President will agree to this but I believe it to be a distinct possibility. I have no doubt that he would give an oral promise to this effect which I believe might be relied upon, in view of the more favorable public feeling and situation that would probably follow the execution of the public works and because of the support from the Legation that the President will very probably need in his future relations with the Legislature.

If the Department feels that the written or oral promise of the Government would be insufficient, then the note could make approval of the application to increase the public debt conditional upon conclusion of a financial agreement but, as previously recommended, the note should not be delivered until there is assurance that the loan will be forthcoming and that some funds, in advance of ratification, will be provided to start work on the Artibonite and possibly other projects. Even under these conditions I feel that there is a decided risk in thus tying up the financial agreement and the loan—if legislative ratification of the "definite accord" is contemplated—of losing the loan and of risking the most unfortunate occurrence of a second rejection of the proposition of financial control after 1936. Even if the Legislature would accept the condition there would probably be unpleasant criticism in Haiti and abroad that we had used undue pressure to achieve our aims.

It has been assumed throughout this despatch that the "definite agreement" mentioned in the Department's telegram signifies an accord covering all of the pending issues and subject to legislative ratification. If the note which is being sent does not make this clear I would appreciate instructions on this point. Would the Department consider a purely executive arrangement, such as the Haitianization agreement of August 5, 1931, on the question of financial administration? It is possible that the Haitian Government might agree to conclude an executive arrangement although probably not before the close of the next regular legislative session.

One argument which might possibly be invoked in favor of an executive accord on financial administration after 1936 is the fact that a future agreement on this point, conferring the same powers as at present exercised, is specifically foreseen in the Protocol of 1919, which itself was duly ratified. It might be argued that a second ratification was unnecessary and that a later Legislature had no power to change

a contract made by a previous one. On the other hand, a precedent for ratification was established by the Treaty of September 3, 1932, and an effort to escape legislative reference would undoubtedly cause criticism in Haiti and among opponents of our Haitian policy in the United States.

Respectfully yours,

NORMAN ARMOUR

838.51/2572 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, December 15, 1932—10 p. m.

[Received 10:35 p. m.]

134. Pixley has received a cable from De la Rue stating that he has elaborated with the bankers a plan for a revolving credit of one million dollars for Artibonite development.

The President returns Saturday next. Please cable whether you perceive any objection to my calling upon him, as proposed in my despatch number 22 of December 9th, to explain to him the Department's difficulty in giving final approval to a new loan while the Haitian Government has failed to provide the definite agreement regarding financial administration after 1936 which is one of the guarantees of the present loan and to ascertain what assurances in this respect he feels he is in a position to give.

ARMOUR

838.51/2572 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 17, 1932—2 p. m.

79. Your despatch No. 22, December 9, and telegram No. 134, December 15, 10 p. m. You may withhold delivery of the note enclosed with Department's instruction No. 10 of December 8 until further instructed.

We feel, however, that you should take an early opportunity to discuss fully and frankly with President Vincent the Department's view as set out in its instruction No. 10 regarding an agreement covering financial administration after 1936 before final consideration can be given to approval of any increase in Haiti's public debt. You will of course make it clear that there is no desire whatsoever on the part of this Government to bring pressure to bear for ratification of the Treaty of September 3, 1932, but any new financial arrangement must inevitably bring to the fore the question of the future relationship between Haiti, the bondholders and this Government. The action to

be taken in Haiti on this treaty (with particular reference to the provisions for financial control incorporated in Protocol B), whether it be to resubmit it for the approval of the legislature or to discuss with you modifications which would not affect the essential provisions thereof, or simply to let matters drift, is for the Haitian authorities to determine. The situation, however, which confronts the United States Government is that, on the one hand, the Haitian legislature has declined to approve an agreement defining the responsibilities of the United States Government regarding financial control in the period after 1936 as is required by the Protocol of 1919, and has furthermore gone on record as opposed even to the principle of such an agreement, while on the other hand the Haitian Government is now seeking the approval of the United States Government for a loan which would increase Haiti's public debt and thereby enlarge the responsibilities of the United States Government as regards Haitian finances. Even in the event that the plan proposed would provide for its own liquidation before 1936, its execution is very likely to have a bearing upon the Haitian financial situation and the position of the bondholders; furthermore experience in many countries shows that when a banker's advance is introduced into an existing bond situation, the two are very likely to become closely connected before the banking operation is finally completed. There is an obvious inconsistency in this approach to the problem on the part of Haiti which should be apparent to President Vincent and he should be able to appreciate that despite the sympathetic consideration which we desire to give to Haiti's financial and economic problems we must be in a position to know exactly where we shall stand regarding our financial responsibilities in Haiti after 1936 before we can agree to any enlargement of such responsibilities.

With reference to your statement on page 7 of your despatch under reference that you assume that the "definite agreement" mentioned in our telegram No. 77 of December 7, 2 p. m.,¹⁷ signifies an accord "covering all of the pending issues and subject to legislative ratification" you are advised that in so far as this question of an increase in Haiti's public debt is concerned, we have reference only to an agreement covering the question of financial administration as set forth in Protocol B of the Treaty of September 3. We should not of course feel it necessary that in connection with this question the entire treaty of September 3 should be placed in effect. In other words, if President Vincent should desire to negotiate with you a separate agreement covering financial administration and embodying all the essential features of Protocol B of the September 3 treaty, there would be no objection on our part to considering this method of approach. How-

¹⁷ Not printed; see instruction No. 10, December 8, 1932, to the Minister in Haiti, p. 694.

ever, it has been the Department's understanding that there has been no criticism in Haiti of the other provisions of the September 3 treaty covering Haitianization of the Garde, etc. We feel that any agreement providing for financial administration must be subject to legislative approval and that an executive agreement would not be satisfactory.

We were advised by De la Rue on December 14 that he was sailing for Haiti on December 15. He stated that the National City Bank, with which he had discussed the Haitian proposal to obtain a loan, was not in favor of the project outlined in the Haitian Government's note to you of November 18, but that he had been discussing with the Bank an arrangement for financing the Artibonite project through the setting up of a revolving fund in the amount of about \$400,000, the Haitian Government to put up B Bonds held in its investment account as collateral. De la Rue expressed the view that there would be surplus revenues this year which Haiti could pay back into the revolving fund, thus keeping this fund alive. His plan contemplates a total expenditure of about one million dollars for the Artibonite project spread over 3 or 4 years. He seemed to feel that the National City Bank was looking with favor on this plan, and advised that a representative of the Bank would come to Washington in the next few days to lay the matter before the Department. De la Rue felt that the creation of a revolving fund would not constitute an increase in the Haitian public debt requiring the approval of this Government under the 1915 Treaty. For your information, however, it is our present view, without of course having had an opportunity to know the details of this plan, that the setting up of such a revolving fund would in fact constitute an increase in the public debt of Haiti within the meaning of Article 8 of the 1915 Treaty.

STIMSON

838.51/2575 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, December 21, 1932—1 [3?] p. m.

[Received 8:35 p. m.]

136. I have an appointment with President Vincent tomorrow at which time I will set forth fully the views contained in the Department's telegraphic instruction No. 79 of December 17, 2 p. m. I am informed that the President realizes and is reconciled to the fact that the larger loan envisaged in the Haitian Government's note of November 18 last is out of the question at present due to the state of the financial market, but is counting on having the possibility reexamined

next summer when conditions may have changed. In the meantime he is apparently satisfied with the proposed short-term bankers' advance which he considers does not constitute an increase of the public debt within the meaning of the Treaty of 1915 requiring the consent of the Department and believes therefore that the Department will offer no objection to it.

Capital construction in Haiti has for the past 10 years at least been financed from available cash reserves and not from a voted budget. While capital public-works projects have been submitted to the Financial Adviser for his approval and that of the Legation, it has apparently not heretofore been considered that they required the specific approval of the Department. De la Rue and the President hold that the short-term banking operation envisaged is in lieu of selling the bonds from the reserves to provide funds for the initial construction on public works and that the treaty is not involved.

They hold that the authority to borrow temporarily, as proposed on the security of B bonds held, is given by the law of August 5, 1926,¹⁸ which provides that bonds in the investment account can be sold or "utilized as a guarantee for loans". While under this law the Financial Adviser has never heretofore borrowed money on the security of bonds held in the investment account he frequently sold bonds from this account usually for the purpose of completing amortization requirements for the various loans as a cheaper method than by calling the bonds by lot on the open market. The resulting cash for such sales of bonds has always been placed in the available cash reserves of the Government where they could be used as proposed in the present case.

ARMOUR

838.51/2575 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 23, 1932—7 p. m.

81. Your No. 136 of December 21, 1 [3?] p. m. To date the bankers have not submitted to the Department the proposal regarding a short time advance outlined by De la Rue. The Department as at present advised sees no reason to modify its view regarding an increase in the public debt as stated in the last sentence of telegraphic instruction No. 79 of December 17, 2 p. m.

STIMSON

¹⁸ *Le Moniteur*, August 12, 1926.

838.51/2576 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, December 24, 1932—noon.

[Received December 25—1:40 a. m.]

137. Department's telegram No. 79 of December 17, 2 p. m., my 136, December 21, 3 p. m. I have had a talk with the President who assures me that if the \$400,000 credit is made available to the Government and they can begin work as hoped on the Artibonite project when Parliament reconvenes in April next he will resubmit the treaty with certain changes which can be discussed before that date and is confident that he will be able to secure its ratification.

He and Hibbert¹⁹ also desire Department's approval of an advance of \$200,000 from cash reserves for other public works, this amount together with \$400,000 credit to be repaid from a loan of around \$2,000,000 as proposed in the note of November 18 when market and improved credit conditions permit its negotiation. They state that this latter loan would only be negotiated after ratification of treaty and that Department's approval of it would be used by Executive in forcing Legislature to act favorably on treaty. Foreign Minister has submitted a personal memorandum on their new proposal which I am forwarding by air mail.

I do not believe that the Government really expects that approval will be given to the request for a \$200,000 advance from reserves for other public works before the ratification of an agreement respecting future financial administration. I believe that the Government will be satisfied with oral assurances from the Legation that a smaller sum will be made available to start building particularly in the Cayes district sometime before the Legislature convenes provided that a budget surplus appears probable at that time.

ARMOUR

838.51/2580

The Minister in Haiti (Armour) to the Secretary of State

No. 32

PORT-AU-PRINCE, December 26, 1932.

[Received December 28.]

SIR: With reference to my telegram No. 136 of December 21, 3 p. m., and previous correspondence, I have the honor to transmit to the Department copies of a memorandum²⁰ prepared and signed by the Minister for Foreign Relations, of a proposal made to me in the course of a conversation with the President on December 22nd, together with my own minutes of the conversation in question.²⁰

¹⁹ Haitian Minister of Finance.

²⁰ Not printed.

As will be noted from my minutes of the interview it was proposed that, in return for the Department's approval of a bankers short-term advance of \$400,000 to start work on the Artibonite project and anticipating that later, the bankers will consent to a larger term loan of about \$2,000,000.00 as requested in the Haitian note of November 18, the President would submit to the Legislative Body a treaty along the same general lines (with certain amendments as to form) as the rejected convention of September 3, 1932. He proposed further that, as soon as such a treaty was ratified, the Department give its consent to the expenditure of \$200,000.00 from the cash reserves of the treasury for the execution of a part of the program of public works set forth in the note of November 18.

The President assured me that with the Artibonite development actually under way and in view of the evident necessity of a loan to complete this project and the other public works planned, he would have sufficient backing of public opinion to force ratification of a treaty by the Legislature.

The written memorandum prepared by the Minister for Foreign Relations does not contain a definite engagement to obtain the ratification of a treaty covering the pending issues and differs from the oral proposals made in that it asks that \$200,000 be made available immediately for public works other than the Artibonite project instead of after ratification of the proposed treaty.

I feel, however, that the Foreign Minister's memorandum is as definite and satisfactory a written assurance with respect to the Treaty as we can expect. I am not inclined to believe that the request for approval of an immediate advance of \$200,000 from reserves to construct roads and other public works was made with much expectation that it would be granted. It is very possible, however (see final paragraphs of the enclosed memorandum by de la Rue²¹) that some funds could be made available to start certain road projects before the Legislature convenes next April.

The precise terms of the proposed revolving fund credit have not yet been received either by the Haitian Government or the Financial Adviser, but it is assumed that, by this time, they have been communicated to the Department by the National City Bank. Presumably they are in substance as described in the enclosed memorandum prepared by the Financial Adviser.

Personally I feel that we should comply with the Haitian request for approval of the short-term, bankers loan of \$400,000.00 and I believe that we can place considerable reliance on the President's oral assurance that, under the conditions as proposed he will be able

²¹ Not printed.

to obtain ratification of a treaty of substantially the same provisions as that of September 3, 1932.

There is no question that the President, if he wishes to exert the necessary influence and authority, can convince the Legislature of the necessity of an agreement on the pending issues. According to reports received by the Legation the nationalist opponents of the Treaty and the Government were astonished and shaken by the firm action of the President in returning to the defense of the Treaty in his Aux Cayes speech.²² There are certain irreconcilable opponents in the Senate but the entire membership of the Chamber of Deputies obtained its election as a result of the support of the Government, and despite the change in salary and extension of their term of office which they decreed themselves in the new Constitution voted last August, they do not feel themselves sufficiently sure of their present scale of pay nor their tenure of office to oppose a really determined insistence by the President. As reported in despatches at the time the initial reaction in both branches of the Legislature to the introduction of the treaty of September 3, 1932 was not unfavorable. It was the weak defense of this treaty by the Government and the practically unopposed attack of the opposition press and certain senatorial leaders that caused its rejection.

The President has now taken a strong stand on the treaty and a second defeat on this issue would be unwelcome to him as it would be to us. I was much impressed by the change in his attitude since his return from Aux Cayes undoubtedly accounted for by the really enthusiastic reception accorded him there as well as the favorable comment on his speech. The confidence in himself before lacking seemed to have returned, and if only he can be helped to continue in his present mood, I cannot believe that the Legislature would dare to block him particularly if public opinion can be properly prepared between now and April in support of his projects envisaged and the Legislature made to feel it.

Even though we may have to discourage any advance from the cash reserves at the present time (it will be noted that in my talk it was proposed that this advance should be made only after ratification of the Treaty and pending the conclusion of the larger, long term loan, while in the written memorandum of the Foreign Minister it is suggested that this advance take place at once) approval of the \$400,000.00 revolving credit followed perhaps in February by permission for a smaller advance of say \$50,000.00 from the cash reserves, if conditions appear to warrant it, would permit work on certain roads in the South to be begun and thus enable the President to say to the Southern Sena-

²² For text of the speech, delivered December 10, 1932, see *Le Moniteur*, December 29, 1932.

tors and Deputies that the continuation and completion of the projects would depend upon ratification of the Treaty. As to the feasibility of the project on which the money is proposed to be spent, as shown by the enclosed memorandum of the Financial Adviser the two leading American banana companies are evidencing real interest in Haitian banana growing. The expert of the Standard Fruit Company, now studying conditions on the ground is of the opinion that within a year after irrigation and drainage of the Artibonite is started the section could be exporting bananas at the rate of 1,000,000 stems per annum and that with completion of the irrigation this figure could easily be raised to 4,000,000 stems which, according to the expert, is the amount desired by his company. If the development proceeds as satisfactorily as hoped and world financial conditions improve it should certainly be possible for Haiti to obtain additional funds necessary to complete the project.

To sum up the foregoing discussion I believe that the Department should approve the short-term loan of \$400,000.00 which I understand the National City Bank is prepared to grant and I am of the opinion that considerable reliance can be placed upon the assurance of the President that the Legislature will ratify a satisfactory agreement on the question of financial administration after 1936. It is possible that, if the Department decides to approve the new proposals it will wish to have such approval signified perhaps in the form of a reply to the Haitian Government's note of November 18, last. However, no official notification, (the Foreign Minister's memorandum to me is of a strictly unofficial nature) of the change in the plan as set forth in the note has as yet been addressed to our Government and for the completion of the records the Department may wish to have some such official notification. It may be that if the Department approves the \$400,000.00 credit on the condition that the President will attempt to secure ratification of the treaty, it will wish so to inform me and I could then notify the Haitian Government that we are prepared to give our approval upon the receipt of a note setting forth the new proposals. As to what written assurances we can expect from the Haitian Government regarding the treaty, it is hard to say. Even though they may be, and rightly so, optimistic as to their ability to secure ratification they may be reluctant to place themselves on written record to that effect. Furthermore, it is a question in my mind how far we should insist on such written assurances. Once assured that there will be no approval on our part to a further increase in the public debt unless or until the treaty is ratified, I feel that we have here an assurance far stronger perhaps than an official promise in writing which latter, if its existence became known, might greatly embarrass the President in his relations with the Legis-

lature, even giving them a weapon, if used as they would be capable of using it to defeat the treaty.

Perhaps, therefore, the Department would be willing to grant me discretionary powers as to how far we should insist upon written guarantees in return for our approval of the new proposal.

We are still studying the matter here and, as stated, the final proposition of the bank has not yet reached Port-au-Prince.

I will report by telegraph any new developments and any suggestions which may occur to me as of possible use to the Department in the new phase of the situation.

Respectfully yours,

NORMAN ARMOUR

838.51/2576 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 28, 1932—6 p. m.

82. Your No. 137 of December 24, noon, last paragraph. The Department of course is confident that no assurances, oral or otherwise, will be given the Haitian Government by the Legation regarding any sum to be made available from the cash reserves without consulting the Department.

STIMSON

838.51/2582

The Minister in Haiti (Armour) to the Secretary of State

No. 34

PORT-AU-PRINCE, January 2, 1933.

[Received January 5.]

SIR: With reference to my despatch No. 32, of December 26, 1932, in which I recommended that the Department give its approval to the proposed short-term loan of \$400,000 offered Haiti by the National City Bank, I have the honor respectfully to suggest conditions which I feel should be attached to such approval and certain facts of possible use to the Department in its consideration of the matter.

Before discussing the latter, I believe that it would be useful briefly to review the discussions with the Haitian Government of the past two months.

When these discussions began, President Vincent was in a state of extreme political discouragement, largely as a result of criticism and the rejection of the Treaty of September 3, 1932. While he was sincerely interested in the project of the Artibonite development and other public works which he hoped would restore his popularity he was sceptical of the possibility of obtaining a loan to execute them and reluctant to accept the solution of borrowing in the United States

from fear of political opposition. Hence his proposal of a moratorium on amortization of the 1922 loan as a means to secure the necessary funds. At that stage he made it plain that he did not believe it was politically possible to revive the Treaty.

Under these circumstances to have made the ratification of a Treaty along the lines of the convention of September 3, 1932, a condition precedent, not alone to approval of the loan, but to its mere consideration by the Department would have resulted, at that time when there was no assurance that the money would be forthcoming, in refusal, impaired relations and undesirable publicity. The task as we saw it here was to build up the President's morale, at the same time not letting him forget his obligation under the Protocol of 1919 to reach a definite agreement regarding future financial control.

For reasons set forth in the Legation's despatch No. 32 of December 26, 1932, the President has, I feel, rapidly regained his former confidence and there is now evidence of determination to exert authority and meet the responsibilities of his office. As stated, this is partly the result of the favorable reception accorded him on his recent trip to the South, and the absence of press criticism of his unexpected and firm defense of the Treaty of September 3, 1932. As the Department is aware, he has now orally promised, in return for approval of the loan of \$400,000 and anticipating that it will be necessary to have approval of further borrowing to complete the Artibonite development in which, he is apparently showing a real interest and study which he has not usually devoted to other Government problems, to submit and obtain ratification of a new Treaty differing only in non-essentials from the convention of 1932.

If it were a question of the loan of \$2,000,000 originally sought by the Haitian Government, we could with reason now insist on ratification of a satisfactory Treaty on the pending issues as a condition precedent to consideration of the request for approval of the loan. If the present favorable reaction toward a loan for public works and the present more reasonable attitude toward a new Treaty continue to develop I believe that later it might even be possible, to put it bluntly, to trade our approval of the \$400,000 credit now offered for a ratified accord on the question of future financial administration and other pending issues.

However, I do not feel that such is now the case, and I do not believe that the Department should incur the risks inherent in such a stand if indeed it is contemplating taking this position. In the first place, the loan is too small to have any immediate effect on legislative opinion in its present state of antagonism to the Treaty of September 3, 1932. It is furthermore a short-term borrowing on reserves accumulated in years of excess revenues for just such measures of Treasury protection

as we feel this Artibonite development to be. The fact that this reserve is in the form of bonds, because of the higher interest that can be gained thereon, instead of in cash on deposit and the fact that these bonds must be pledged for a loan instead of sold by reason of the depressed bond quotations, is accidental. Essentially, the operation envisaged is the utilization of treasury reserves. To attempt to insist on a Treaty as a prior condition under these circumstances would, I feel, cause possibly successful opposition and press criticism which can and should be avoided. Furthermore, imposing such a condition would necessarily result in delaying the Artibonite development, the value of which I feel more than ever since I have visited St. Marc and the valley itself. The Standard Fruit Company already has one man on the ground and other experts from this company and from the United Fruit Company, which is also interested, are expected to arrive within the month. After ten years the Government has finally succeeded in really interesting the fruit companies in banana culture in Haiti upon the condition of irrigating the Artibonite and further delay now might be fatal.

Additional borrowing to complete the Artibonite project is extremely probable as there is no likelihood of Haitian current revenues being able to finance such work for a long time to come. If the initial work is as successful as hoped there should be no difficulty in finding this additional financing. Faced with the necessity of further financing, the Treaty can then be resubmitted and I believe the Government, backed by popular interest in the development, will be able to secure ratification.

I am personally convinced that by following the procedure proposed we can secure ratification of the Treaty and avoid exposing the United States to criticism of having used its special position to exert pressure to obtain it, as was the case in connection with the ratification of the Treaty of 1915.

While I am of the opinion that the Department should give its approval to the proposed loan, provided that its final terms are substantially as reported by Mr. de la Rue, (see enclosure No. 2 of my despatch No. 32 of December 26, 1932) I feel that the following conditions might well be attached to our consent:

1. That, except by agreement with the Financial Adviser, the proceeds of the loan shall be used solely for the execution of the Artibonite development project as outlined in the Haitian Government's note of November 18, 1932.

2. That the plans and execution of this project shall be subject to the approval of the Financial Adviser.

I believe that our note should state our position, as set forth on page 3 of the note transmitted in the Department's instruction No. 10

of December 8, as regards the necessity of an agreement on financial administration following 1936 before the United States could be expected to assume further responsibilities in respect to Haitian finance which might prolong our control which we desire to terminate at the earliest possible moment. (I am doubtful ((see my despatch No. 29 of December 21, 1932,²³)) whether in our reply we should refer to the financing at present proposed as an increase of the public debt). However, in deference to the view of the Haitian Government that work on the Artibonite project should start without delay we will not insist on such an agreement as a condition precedent to our approval of the present loan. The note might then conclude with the statement that the Haitian Government will understand that the United States cannot give its approval to further loans or utilization of treasury reserves for such purposes until the commitments regarding future financial administration contained in the Protocol of 1919 have been fulfilled.

Personally I do not feel that anything would be gained by referring in the note to the request for an advance of \$200,000 from treasury reserves for public works other than the Artibonite. Later, if the fiscal situation improves (see page 2 of my despatch No. 32 of December 26, 1932) we can perhaps give consideration to the proposition of a small special credit for this purpose.

Mention has not hitherto been made of the fact that the Standard Fruit Company has stated that it would supply without charge an irrigation expert to advise the Haitian Government should the preliminary studies now being conducted by their expert continue to be favorable. We should, I feel, insist upon a consultant opinion before work actually starts on the development.

In view of the favorable nature of the terrain, it is believed here that it will be feasible to utilize the small loan proposed to effect the irrigation of one section of the Artibonite using temporary diversion dams and gravity flow. This initial development, it is believed, could later be absorbed into the scheme of the complete development project without loss. The Haitian Public Works Department is now studying such a project.

Respectfully yours,

NORMAN ARMOUR

838.51/2580

The Secretary of State to the Minister in Haiti (Armour)

No. 18

WASHINGTON, January 9, 1933.

SIR: The Department has received your despatch No. 32 of December 6 [26], 1932, transmitting a copy of a memorandum prepared and

²³ Not printed.

signed by the Minister of Foreign Relations of a proposal made to you during a conversation with the President on December 22, together with a copy of your memorandum of the conversation in question. The Department notes that apparently the Haitian Government has reached the stage where it desires to bargain for our approval of a loan in some form or other.

To date, the bankers have not submitted any proposition to the Department and the Department cannot of course even intimate to the bankers that it is awaiting a proposition to which it might possibly give its approval. It should be perfectly clear to the Haitian Government that the Government of the United States cannot undertake to increase its commitments in any way until such time as it is assured that adequate measures of financial control, required by the Protocol of 1919, will be in effect after the Treaty expires in May, 1936. At the same time the Department does not wish to assume the position of endeavoring to bargain for such assurance or of threatening to withhold its approval of any loan proposition when there is no such proposition before it. The action which the Department would take on any loan proposition, once satisfactory assurances as to financial control were received, would of course depend on the merits of the proposition.

If you believe that the Haitian Government sincerely desires to propose certain changes or modifications in the Treaty, particularly Protocol B, which would not affect the substance thereof, with a view to resubmitting the Treaty to the legislative body in April, the Department will be particularly interested in knowing the Haitian Government's views.

Very truly yours,

For the Secretary of State:
FRANCIS WHITE

838.51/2590

The Minister in Haiti (Armour) to the Secretary of State

No. 60

PORT-AU-PRINCE, January 30, 1933.
[Received February 2.]

SIR: With reference to my despatch No. 34 of January 2, 1933 and previous correspondence on the same subject, I have the honor to transmit the draft of a note tentatively submitted by the Haitian Government²⁴ (but later withdrawn) requesting the approval of the United States to the \$400,000.00 revolving credit offered by the National City Bank to finance an irrigation and banana-growing development in the Artibonite valley and containing certain engagements re-

²⁴ Not printed.

garding the negotiation of a new treaty which would provide for the measures of financial administration to be in effect following the expiration of the Treaty of 1915. There is also enclosed a memorandum of the principal provisions of a contract²⁵ for the promotion and purchase of banana production in the Artibonite which the vice-president of the Standard Fruit Company will present to his board of directors within the next few days and which has been approved in principle by President Vincent and the Minister of Finance.

The draft note from the Haitian Government was a result of a series of conversations with the President, the Ministers for Foreign Affairs and Finance. Minutes of these conversations are enclosed.²⁵ In these conversations I pointed out that as a result of the rejection in principle by the last Legislature of the Treaty of September 3, 1932, the Department could not, by reason of the obligations assumed by both Governments to the bondholders of the 1922 loan, give its approval to an increase in Haiti's public debt until it was in possession of definite assurances regarding the system of future financial administration, contemplated in the Protocol of 1919 and in the loan contract. I stated that I had as yet no instructions from my Government as to what form these definite assurances should take but that the first memorandum presented by the Minister of Foreign Affairs and transmitted in my despatch No. 32 of December 26, 1932, appeared to me to be obviously insufficient; that this memorandum was weaker than the President's two public utterances on the subject, namely the proclamation of September 16, 1932,²⁶ and his speech at Aux Cayes on December 10, 1932.²⁷

As a result of these conversations, the President handed me the draft of a note, previously referred to, and asked for my comments thereon. I informed him, after reading it, that while I felt great hesitancy in editing any communication from his Government, my personal feeling was that the note proposed was still unsatisfactory in that it failed to give any indication of the modifications of the Treaty of September 3, 1932, which the Haitian Government would propose. I pointed out that this Treaty contained, in our opinion, the maximum concessions to the point of view of the Haitian Government, consistent with the commitments of both Governments in respect to the loan of 1922 and suggested that if he were unable to present at this time the text of modifications which he would propose that the note should clearly indicate that the new treaty would not alter the essential provisions of the convention of last September. The President asked me to study his note further and perhaps go over it more in detail

²⁵ Not printed.

²⁶ *Le Moniteur*, September 16, 1932.

²⁷ *Ibid.*, December 29, 1932.

with M. Blanchet. This I did, on the following day, again pointing out my objections as given above. I also suggested that the penultimate paragraph of the note, containing a reference to the Panama Canal etc., might be omitted as apparently not contributing anything to the matter under discussion and possibly being capable of misconstruction. M. Blanchet took back the draft saying he would bring my suggestions to the attention of the President. I have heard nothing further from him since that date, January 25th, although he intimated that he would hand me a new draft probably not later than the following day.

I think that the Department will agree that the draft note, tentatively submitted, while a great improvement over the vague memorandum of December 22, does not contain the requisite assurances. It will be remarked that the draft note states that "the project" of a new treaty would be presented for our consideration during the first half of February. Personally I do not feel that if the loan is otherwise acceptable to the Department its approval should be delayed any longer than absolutely necessary. Certainly it should be made dependent on ratification of the treaty or even its negotiation in final form, as this may take some weeks and if, as expected, the Standard Fruit Company and possibly also the United Fruit Company, whose experts are now making their survey, present during the next fortnight or so a definite and valuable plan for banana culture in Haiti, this plan should be accepted without undue delay. However, I shall continue to press for a definite statement of the modifications which the Haitian Government thinks will be necessary to ensure the ratification of the Treaty.

I may say here that the confidence with which the President and the Minister for Finance orally promised (see my despatch No. 34 of January 2, 1933) to put through a new treaty during the next legislative session has apparently weakened somewhat as a result of the continuation of the newspaper campaign for the withdrawal of the Marine Brigade (see my despatch No. 52 of January 21, 1933²⁸) inaugurated by *Le Nouvelliste*, following publication of the news that our troops were being evacuated from Nicaragua.²⁹ The Minister for Foreign Affairs is apparently even more shaken than the President and, as will be noted from the minutes of my last conversation with him, expressed fear that decided modifications of substance of the Treaty of September 3, 1932, would have to be conceded to the Legislature to obtain ratification. These moments of discouragement are periodic in the present government and it is hoped that it will return shortly to a comprehension of the artificial nature of much of the opposition and to a realiza-

²⁸ Not printed.

²⁹ See press release issued by the Department of State, January 2, 1933.

tion of its responsibility to provide an agreement on financial administration and of its own proper powers to effect the ratification of such an accord.

As explained in previous despatches, I do not believe that even should the Haitian Government delay in giving satisfactory assurances with regard to the new treaty that we should refuse our consent to the small credit proposed. Certainly it is not practical, with conditions as they are, to insist upon a ratified treaty as a condition precedent to our approval, and I feel that we have a good chance to obtain eventually a satisfactory treaty if it is made clear to the Haitian Government and the Legislature that we cannot give our consent to further borrowing either from Haitian treasury reserves or from foreign bankers of funds which will very probably be necessary to complete the Artibonite development if the treaty is refused.

It occurs to me that if the Department should decide to give its approval to the \$400,000.00 renewable credit offered by the National City Bank that it may wish to confine its accord to a credit for one year and reserve its approval of any renewal thereof. This might provide another incentive for the Government to push the treaty during the next legislative session. It may be mentioned that returns to date indicate that a budget surplus, possibly as high as \$200,000.00, may occur this year.

Mr. Zito, the vice-president of the Standard Fruit Company, while allowing me to read the contract which he will submit next week to his board of directors, was unwilling in advance of action by the latter, to leave a copy of it with me. The enclosed memorandum, however, contains the essential points of the proposal.³⁰ The Financial Adviser and the Legation are of the opinion that while certain provisions will have to be revised to the advantage of the Haitian State, in general, it is a proposition of real value to Haiti. A statement of the Financial Adviser's views is also enclosed.³⁰

Mr. Zito in his talks with me has been very optimistic concerning the possibilities of banana growing in Haiti. Presumably spurred on by the competition of the United Fruit Company, he has cut short his inspection trip here, presented his draft contract to the Haitian Government in advance of the expected date and is proceeding by airplane to New Orleans to consult with his board of directors. Although it is not mentioned in the contract it is probable that the granting of a concession to his or the other fruit company would involve an investment within the next year or so of around \$500,000.00 principally in the construction of a large loading wharf and storage facilities at St. Marc.

Respectfully yours,

NORMAN ARMOUR

³⁰ Not printed.

838.51/2592

The Minister in Haiti (Armour) to the Secretary of State

No. 62

PORT-AU-PRINCE, February 1, 1933.

[Received February 6.]

SIR: With reference to my telegram No. 4 of January 31, 3 [1] P. M.³¹ and to my despatch No. 60 of January 30, 1933, I have the honor to transmit the text and translation of a note from the Minister for Foreign Relations, requesting the approval of the United States to a revolving credit of \$400,000.00 offered by the National City Bank to the Haitian Government. The note also contains certain engagements on the part of the Haitian Government with respect to the negotiation of a treaty along the lines of the unratified convention of September 3, 1932.

Respectfully yours,

NORMAN ARMOUR

[Enclosure—Translation]

The Haitian Secretary of State for Foreign Affairs (Blanchet) to the American Minister (Armour)

PORT-AU-PRINCE, January 30, 1933.

MR. MINISTER: Desirous of reaching a solution of the problems created by the liquidation of the Treaty of 1915 and convinced of the necessity of establishing Haitian-American relations on a solid basis, in order to continue to practice toward the United States at the end of the regime created by this Treaty a policy of sincere and confident friendship, the Government of the Republic affirms once more that it is disposed to reopen negotiations in the most conciliatory spirit with the object of reaching a satisfactory settlement of the questions which interest the two Governments.

For the Government of the United States, these questions at present consist in the adoption of an instrument fixing the forms of the guarantees contemplated by the Protocol of 1919 and the loan contract of 1922, to be in effect until the refunding or complete retirement of that loan.

For the Haitian Government, they consist in opening the way to a new policy of collaboration between the two countries in such a manner that in their own best mutual interests, the projected arrangement can provide, while maintaining the reestablished independence of Haiti, for that tranquility and political stability indispensable to the progress of our financial and economic development.

³¹ Not printed.

The Government of the Republic believes that in order to provide for this future of the country and to support it by the effective aid of the Government of the United States during the unfortunate conditions through which our country is passing, and in order that the United States itself, by the confidence which it will inspire in the Haitians, can strengthen and develop more and more the equitable bonds with the Haitian Nation, the following plan might receive the sympathy of the Department of State and testify to the best possible good will of the two countries:

I. Immediate approval of a loan of \$400,000.00 granted by the banks to the Haitian Government. This sum would permit us to undertake, immediately after the first of next February at the latest, certain important public works and notably the irrigation of the Artibonite valley for the production of bananas. The fruit companies would agree to purchase the entire annual crop, under the prior condition that the Haitian Government would carry out the irrigation project.

II. Submittal, by the Haitian Government to Your Excellency after the first fortnight of February next, of a draft comprising the modifications which might appropriately be made in the Treaty of September 3, 1932, and which would conciliate the respective views of the two high parties.

III. If the agreement of the American Government should not be obtained to the modifications proposed by the Haitian Government, the latter will be glad to seek in all fairness and with the greatest good will the means of reaching an arrangement equally profitable to the two high parties. With this object it will also be glad to consider any counter-proposition which might be made to it by the American Government and to continue their joint efforts for the conclusion of a new accord to be submitted to their respective legislatures.

The Government of the Republic hopes that the Government of the United States will, in the future, apply in its relations with Haiti its new diplomacy, based on the psychology of peoples and which is destined to produce such happy results.

The frank friendship of the Republic of Haiti, the maintenance of peace within its territory, the stability of its government, the development of its national resources through the aid and economic assistance which the United States will be disposed to grant it, constitute the best safeguard of their common interests.

The Haitian Government is absolutely confident that the American Government will duly appreciate the spirit of conciliation, frankness and friendship which has inspired this note. It is furthermore confident that such a spirit constantly animating the new negotiations will contribute to the rapid conclusion of the arrangement envisaged.

Please accept [etc.]

A. BLANCHET

838.51/2594 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, February 10, 1933—5 p. m.

[Received 11:15 p. m.]

10. The President asked me to come to see him this morning. The Ministers for Foreign Affairs and Finance, also De la Rue, were present. He expressed great concern at the delay in reaching a decision in the \$400,000 revolving credit, that it was a humiliating position in which his Government found itself in that, although its financial condition and record were admittedly excellent, after 3 months of negotiation there still seemed to be no immediate prospect of a decision on the loan. I explained that the delay had certainly not been due to any action or lack of action by the Department, that on January 20 last a tentative proposal was for the first time presented to the Department by the bankers. As I had already informed the Minister of Foreign Affairs that while the Department was not inhospitable to the proposal it obviously could not render a decision until the plan was presented in final form.

The President after expressing indignation at the treatment they had received from the bank in this and other matters, then instructed the Minister of Finance to get in touch immediately with the Bank of Canada to see whether they could consider making the advance.

In the meantime Voorhees³² received a telegram this morning from the bank as follows:

"Expect to forward proposed contract next week for submission to the Haitian Government. After accord reached with them on contract proceed at once present it to State Department for final approval."

While I realize that there is little the Department can do until the contract is finally presented, perhaps it may wish to authorize me to inform the President that once he and the bank reach an agreement on the terms of the loan contract the Department will lose no time in rendering its decision. The President earnestly asked me to explain the difficulty of his position to the Department. He desires to carry out the program set forth in the Haitian Government's note of January 30th (see my despatch 61 [62], February 1) but time is getting short and he fears lest its success may be jeopardized by continued delay. A word of encouragement from the Department at this time would, I feel, be of value.

ARMOUR

³² Manager of the National City Bank.

838.51/2594 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, February 14, 1933—5 p. m.

4. Your 10, February 10, 5 p. m. You may inform the President that the Department will give immediate consideration to the credit proposal as soon as it is submitted by the Bankers. At the same time you may inquire of the President when the Department may expect to receive the Haitian Government's proposals for modification of the Treaty of September 3 and urge that they be submitted as soon as possible.

STIMSON

838.51/2597

The Minister in Haiti (Armour) to the Secretary of State

No. 76

PORT-AU-PRINCE, February 16, 1933.

[Received February 20.]

SIR: I have the honor to refer to previous correspondence regarding the application of the Haitian Government for a \$400,000 revolving fund credit from the National City Bank and in this connection to transmit for the Department's consideration a copy of a communication just received from the Financial Adviser-General Receiver containing certain recommendations.³³

It will be noted therefrom that on the basis of recent returns, the Financial Adviser now confidently anticipates a budget surplus for the current fiscal year of at least Gdes. 1,100,000 and regards it as very possible that this surplus will reach Gdes. 2,000,000 (\$400,000) or the amount of the proposed credit.

He therefore expects to be able to finance the initial Artibonite project if not entirely from this year's budget surplus then from surplus revenues supplemented by some borrowing from cash reserves, with little or no utilization of the proposed credit.

He recommends this method of financing as preferable to increasing the already heavy burden of taxation in which point of view the Legation concurs.

At the same time he would recommend to the Haitian Government that it accept the proposed revolving fund credit, provided the terms of the final contract therefor are substantially the same as in the tentative proposal of the bankers. This credit would be considered as insurance and would be availed of only in case of poor crops, further heavy decline in coffee prices or similar unforeseen

³³ Not printed.

happenings which would adversely affect government revenues next year. In any event the credit would be closed out annually.

The Financial Adviser has mentioned to me the possibility of obtaining additional funds (perhaps amounting to \$350,000 a year) by the conversion of B bonds, which require heavy annual amortization payments by reason of their due date of 1936, into A bonds. While he believes such a conversion operation as quite possible he is not advancing the theory to the Haitian Government at this time but is keeping the possibility of such an operation in reserve.

The Financial Adviser recommends that the Department authorize the immediate advance of \$100,000 from cash reserves to start work on the Artibonite irrigation project with the understanding that if and when the bank credit is set up, in case of necessity, this money would be replaced. It would further be understood that no extraordinary credit for other purposes would be asked for by the Haitian Government during the remainder of the current fiscal period.

I also concur in this suggestion.

There will be sent under separate cover another communication just received from the Financial Adviser,³⁴ discussing among other things, the present irrigation plans of the Haitian Government. He finds these plans feasible and is of the opinion that inasmuch as no particular engineering problems are involved and in view of the experience of Haitian engineers in constructing and operating the existing irrigation systems in the country that the latter can fairly safely be relied upon to construct the small system now proposed for the Artibonite valley. I share his opinion in this matter.

I would appreciate it if the Department would transmit by telegraph its instructions regarding the recommendation that an immediate advance of \$100,000 from treasury reserves be authorized to start work on the Artibonite project.

Respectfully yours,

NORMAN ARMOUR

838.51/2602

The Minister in Haiti (Armour) to the Secretary of State

No. 79

PORT-AU-PRINCE, February 22, 1933.

[Received February 26 (?).]

SIR: With reference to the Department's telegram No. 4, of February 14, 5 p. m., I have the honor to transmit herewith the draft of an amended treaty containing the changes proposed by the Haitian Government in the Treaty of September 3, 1932. A translation of the text is also enclosed.

³⁴ Not printed.

As this draft was handed to me by the Minister for Foreign Affairs only yesterday, the Legation has not yet had an opportunity to study the proposed changes. However, it is hoped, in conjunction with the office of the Financial Adviser, to have an analysis of the changes, together with the comments and suggestions thereon, ready to despatch to the Department by airmail on February 25, next.³⁵

The changes, particularly in Protocol B, go of course far beyond those of form or phraseology which, in accordance with the Department's instructions, on several occasions I emphatically explained was all that my Government was prepared to consider. . . .

Respectfully yours,

NORMAN ARMOUR

[Enclosure—Translation ³⁶]

Draft Project of an Amended Treaty Containing Changes Proposed by the Haitian Government in the Treaty of September 3, 1932

The President of the United States of America and the President of the Republic of Haiti, animated by a common desire to establish on a solid and durable basis the good understanding which should exist between them and their respective States, and convinced that a treaty of friendship will contribute to the accomplishment of this happy result for the present and the future, have resolved to conclude this treaty, designed to put an end to the special situation created by the Treaty of 1915.

For that purpose, they have chosen as their plenipotentiaries:

.....

Who, after communicating to each other their respective full powers, found in good and due form, have agreed upon the following articles:

ARTICLE I

There shall be constant peace and perpetual friendship between the United States of America and the Republic of Haiti, as well as between the citizens of the two States, without exception of person or place.

ARTICLE II

Nationals of each of the two States shall be permitted entry and sojourn, together with their families, in the territory of the other. And, on condition of conforming with the laws of the country, they shall be treated as nationals in regard to travel and residence and they

³⁵ Despatch No. 82, February 24, 1933, not printed.

³⁶ Translation of draft treaty and protocol A supplied by the editors.

will have the right to engage in commerce and industrial manufacturing and to carry on trade in articles of lawful commerce, either in person or by representatives, either alone or in association with foreigners or nationals.

With regard to the practice of their industry, trade, or profession, the pursuit of their studies or scientific investigations, they will be treated as the nationals of the most favored nation.

ARTICLE III

The two Governments agree, furthermore, to terminate the Treaty of September 16, 1915, in accordance with the following program :

(1) Articles IV, XII, and XIII of said treaty are declared to be entirely executed and are abrogated by these presents.

(2) Article X will be abrogated upon the complete Haitianization of the Garde d'Haiti, as provided in Protocol A annexed to this treaty.

(3) Articles II, III, V, VI, VII, VIII and IX will be abrogated on December 31, 1934, the date on which the two Governments will apply Protocol B annexed to this treaty.

ARTICLE IV

The present treaty will be ratified by each party in conformity with the respective Constitutions of the two countries and the ratifications will be exchanged in the city of Port-au-Prince as soon as possible.

In faith whereof, the respective plenipotentiaries have signed this treaty and have thereunto affixed their seals.

Done at Port-au-Prince, the

PROTOCOL A

ARTICLE I

The American officers now serving with the Garde d'Haiti will be replaced in such a manner that, by December 31, 1934, the Garde shall be completely commanded by Haitian officers.

ARTICLE II

On December 31, 1934, the Garde, under complete command of Haitian officers, will be turned over to a Colonel in active service whom the President of the Republic shall designate as Commandant.

ARTICLE III

The promotions to be effected until the complete Haitianization of the Garde will be made after examinations held in the presence of a representative of the Haitian Government in conformity with Article X of the Treaty of September 16, 1915.

ARTICLE IV

To complete the instruction, training, and discipline of the Garde, the President of Haiti may, if he considers it desirable, request the President of the United States to designate a Military Mission of seven members among the highest ranking officers who have served in the Garde. The powers to be granted to this Mission will be determined by a decree of the President of Haiti. The duration of this Mission shall not exceed three years after date of the Haitianization of the Garde.

The withdrawal of the Marine Brigade of the United States will commence immediately upon the ratification of the present treaty by the National Assembly in order to be completed by the date provided for the Haitianization of the Garde.

ARTICLE V

Upon ratification of the present treaty by the Haitian Chamber of Deputies, the American Scientific Mission shall cease to exist.

The President of Haiti may, if he considers it desirable, request the President of the United States to designate two experts in sanitary matters to collaborate with the Chief of the Service National d'Hygiène Publique. The powers of these two specialists will be determined by a decree of the President of Haiti, and the budget of the Mission, as provided by the accord of August 5, 1931, shall be annexed to the budget of the Service National d'Hygiène Publique.

ARTICLE VI

The Government of Haiti, in order to preserve public order, assumes the obligation of maintaining strict discipline in the Garde and of applying for this purpose the present regulations of the Garde d'Haiti.

It will enact a statute which will fix the conditions of appointment, promotion, and retirement in the Garde. It will also take all legislative measures recognized as necessary to guarantee public peace and security, by the enlargement and armament of the Garde and the reform of the rural police.

ARTICLE VII

Each month the National Bank of the Republic of Haiti shall set aside the amount necessary to cover the budgetary allotment of the Garde.

ARTICLE VII [*sic*]

The Government of the United States, taking into consideration the necessity for local authorities to provide for the public security,

agrees to relinquish to the Haitian State, at the moment of the withdrawal of its troops, all ownership in (1) a quantity of matériel, rifles and machine guns, in good condition and equal to that which the Garde now has at its disposal, according to an inventory drawn up in the presence of both parties; (2) the buildings and installations constructed for the expeditionary forces.

PROTOCOL B

ARTICLE I

Until the complete amortization or anticipated redemption of the bonds issued in accordance with the Protocol of October 3, 1919, the Government of Haiti undertakes:

1) To balance its annual budget and, whenever necessary, to adjust receipts to expenditures; not to make extraordinary or supplementary expenditures without unobligated funds to cover them; to create the necessary reserves to assure the service of the debt and budgetary expenses during the months of contraction of fiscal receipts;

2) Not to reduce the customs tariff nor modify internal taxes in such a way as to reduce the total receipts of the Republic;

3) To include annually in the budget of the Republic the amounts necessary for the regular service of the public debt, the total amounts representing the 5% of customs receipts for the personnel of the customs administration and the 15% of internal receipts for the personnel of the administration of contributions;

4) To permit the payment of the public debt in preference to any other payment;

5) To authorize the prior deduction of 5% of the customs receipts and 15% of internal receipts in accordance with collections.

ARTICLE II

Until the complete amortization or anticipated redemption of the bonds issued by virtue of the Protocol of October 3, 1919, a Fiscal Representative and Deputy Fiscal Representative shall be appointed by the President of Haiti on the nomination of the President of the United States for the purpose of inspecting and assuring in an adequate manner the service of the interest and amortization of the loan.

ARTICLE III

The National Bank of the Republic of Haiti, as treasurer of the State by virtue of its contract of concession and depository of treasury funds, has by these presents a formal and irrevocable mandate:

a) To receive and collect for the account and credit of the State all duties, taxes and revenues belonging to it;

b) To deduct each month preferentially and on its own initiative from the receipts or allocations of revenues pledged for the benefit

of the loan and for the account of the fiscal agency, the sums necessary to provide the annual amount of the contractual interest and amortization charges;

c) To remit to the proper person in accordance with the terms of the loan contract, at the times fixed and in the manner provided in the said contract, the amount of the authorized collections and deductions, under the control of the Fiscal Representative.

ARTICLE IV

The present organization of the office of the Receiver General and the Bureau of Contributions will be maintained with Haitian officials and a Haitian personnel for the dual administration of Customs and Contributions, who will be appointed by the President of Haiti.

The expenses of the Service of Contributions, including the salaries of foreign specialists, whom the Fiscal Representative can, if necessary, recommend to be appointed as expert accountants or inspectors and who will be no more than three in number, shall not exceed 15% of internal revenues.

Haitian employees shall receive a special training to occupy, as soon as possible and in any event not later than May 3, 1936, all positions in the Customs Service.

A decree of the President of Haiti will establish the rules governing the functionaries and employees in the Customs and Contribution services.

ARTICLE V

The Fiscal Representative and his Deputy, paid on the basis of the present salaries of the Financial Adviser-General Receiver of Customs and the Director General of Contributions, shall have authority to control or have controlled, either directly or by functionaries and employees of the audit and accounting services, the application of the tariff and the collection of all duties and other taxes on imports and exports in the various custom houses and ports of entry of the Republic of Haiti, in conformity with the laws and customs tariffs which are or will be in force.

The expenses of the Customs Service, including the salary of the Fiscal Representative and Deputy Fiscal Representative, will not exceed 5% of customs collections except by agreement of the two governments.

ARTICLE VI

All payments from Government funds will continue to be made by checks prepared by the Payment Service. The accord of August 5, 1931 will continue to control this service. The checks will be signed by a Haitian functionary specially designated by the President of Haiti on the recommendation of the Secretary of State for Finance.

ARTICLE VII

The system of financial administration of the Republic of Haiti will be governed by a special finance law the project of which, upon approval by the Council of Secretaries of State will be submitted to the legislature.

ARTICLE VIII

The Haitian Government will reach an accord with the Government of the United States regarding the issue of any new series of the loan authorized by the law of June 26, 1922, provided that the new issue does not extend the period, now of approximately ten years, necessary for the amortization of the bonds in circulation.

ARTICLE IX

The Government of Haiti reserves the right to redeem by anticipation the bonds issued by virtue of the Protocol of October 3, 1919. The Government of the United States will not invoke Article VI of the Protocol as an obstacle to this redemption at any time. The stipulations of the present protocol will automatically be null and void in case of anticipated redemption.

NOTE

I have the honor to confirm our understanding on certain points concerning the Treaty which we have signed today.

1. As it is necessary to intensify without delay the training of the Garde in view of its complete Haitianization on December 31, 1934, this intensive training, including particularly the earlier promotion of the present class of the Military School, will commence upon the ratification of the Treaty by the Haitian National Assembly.

2. The monthly salary which will be accorded by the Haitian Government to the members of the Military Mission will be \$250 for the Chief and \$200 for the other members.

These salaries will be included in the budget of the Garde.

This exchange of notes forms an integral part of the agreement between the two governments and will be communicated to the Haitian National Assembly and the Senate of the United States upon the ratification of the Treaty.

838.51/2597 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, February 25, 1933—noon.

8. Your despatch No. 76, February 16.

1. What is the status of the negotiations with the National City Bank for the proposed bank credit?

2. Have you received as yet from the Haitian Government their proposed modifications for the agreement concerning financial control?

3. In considering the Financial Adviser's latest recommendation to the effect that an immediate advance of \$100,000 should be authorized from cash reserves to start work on the Artibonite irrigation project, there are points which the Department would like to have cleared up in order to give appropriate consideration to the matter. There have been various proposals advanced recently and the situation seems somewhat confused. For instance, the postscript to the Financial Adviser's letter to you dated February 7³⁷ would seem to indicate that he then believed that in the absence of a contract with one of the fruit companies it would be useless to attempt to go ahead with the irrigation project. However, it would seem from the Financial Adviser's letter to you of February 16 that, despite the failure of the Standard Fruit Company to complete its proposed contract with the Government, the Financial Adviser nevertheless believes that it would be advisable to go ahead with this project.

4. It will be recalled that in the various proposals put before the Department it was at one time felt that the irrigation project would require the expenditure of approximately \$2,000,000. Later the proposal was made that \$1,000,000 be spent on this work through obtaining a revolving fund credit of \$400,000. It is now stated that a total expenditure of \$400,000 on the irrigation work would be practicable and useful to Haiti.

5. The Financial Adviser's memorandum to you of February 14,³⁷ enclosed with your No. 76, in recommending the immediate advance from cash reserves of \$100,000 to begin the irrigation work, states in effect that in case the proposed bank credit should not materialize and in the event surplus revenues are not available to continue the work, "B" bonds should be exchanged for "A" bonds, thus diverting the service charges on the "B" bonds to the expenses of the irrigation work. In case this should be done, what would be the effect on extending the time for total amortization of the "A" bonds?

6. Is it contemplated that any of this proposed \$100,000 advance would be used for other public works than the Artibonite project? In case the \$400,000 credit is obtained from the bank, would it be contemplated to use any part of it for public works other than the Artibonite project?

7. What is total amount cash reserves immediately available and on time deposit, exclusive of bonds held in investment account?

8. In order that the Department can give appropriate consideration to this matter it is felt that the Financial Adviser should submit to you

³⁷ Not printed.

for forwarding to the Department by air mail a complete description of the proposal now recommended, giving information regarding the points raised in paragraphs 3 to 7 hereinabove, and any further details which may be regarded as essential.

STIMSON

838.51/2603 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, February 27, 1933—1 [3?] p. m.

[Received 3:30 p. m.]

14. Answering the questions in the Department's telegram 8 of February 25, noon.

1. The Haitian Minister of Finance rejected the bank's offer of the credit on the grounds that the terms were unnecessarily onerous. Among other things he does not consider approval of Haitian Legislature nor the formal accord of the President of the United States as necessary. The Government is negotiating with the bank for a modification of the conditions of the credit (see my letter to Wilson of February 24,³⁸ sent air mail 25th).

2. Modifications proposed by the Haitian Government in the agreement concerning financial control transmitted in my despatch 79 of February 22 and commented upon in my despatch No. 82 of February 24.³⁹

We are preparing in conjunction with Pixley replies to paragraphs 3 to 7 which will be telegraphed tomorrow.

De la Rue returns March 2nd and I shall ask him to submit to me for forwarding to the Department the description requested in paragraph 8.

ARMOUR

838.51/2606 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, February 28, 1933—10 a. m.

[Received 5:30 p. m.⁴⁰]

15. The following completes my telegram No. 14 of February 27, 3 [1?] p. m. in answer to the questions in the Department's telegraphic instruction No. 8 of February 25, noon.

Department's paragraph 3. The postscript to the Financial Adviser's letter of February 7, to the Legation was never intended to mean

³⁸ Not printed.

³⁹ Latter despatch not printed.

⁴⁰ Telegram in four sections.

that a contract with a fruit company should be a condition precedent to our approval of the credit and precedent to beginning actual construction of the Artibonite irrigation project. Of course a definite contract with a reliable company along the lines of the proposed contract with the German fruit company, assuring its assistance in the agricultural development of the Artibonite and engaging to purchase such production, would be desirable but it is not, in our opinion, necessary. Our recommendations regarding approval of a loan for the development of the Artibonite and the approval of this development expressed in the penultimate paragraph of Munro's despatch No. 393 of May 2, 1932,⁴¹ made before there was any prospect of a definite contract with a fruit company. Cotton and rice can apparently be grown successfully in the Artibonite and while the possibility of a permanent and important banana development is dampened by the news contained in my letter to Wilson of February 24,⁴² there is no reason apparent for postponing a small initial experimental irrigation project such as is now envisaged. This is particularly true in view of the prospects of a budget surplus which would pay for the greater part if not all the cost of such a project.

Paragraph 4. As reported on page 9 of my despatch No. 8 of November 19th, 1932,⁴³ the original project submitted by the Public Works Department of the Haitian Government contemplated the irrigation of the entire valley at a cost of \$1,373,000. Due to the impossibility of financing a complete project at present and due also to our feeling that it would be wiser not to commit ourselves to the approval of a complete project at this time, the Haitian Department of Public Works made new plans calling for the irrigation of the valley by sections, each section a project complete in itself but capable of being tied up to later extensions. In view of the limited funds available the water is to be furnished by temporary and inexpensive diversion dams which later may be replaced. The Financial Adviser is of the opinion that this is a practical scheme. According to Haitian engineer-in-chief, the scheme of a hydroelectric pumping development discussed in my despatch 8 of November 19, 1932, is the ultimate goal to be achieved when funds are available and the \$400,000 project is so planned that it can form a part of such a development at some time in the future.

Department's paragraph 5. The Legation is informed that the possible exchange of A bonds in the Treasury investment account for B bonds in the hands of the public would not in any way affect amortization through the fiscal agent because bonds in the Treasury

⁴¹ Not printed. Dana G. Munro was then the American Minister in Haiti.

⁴² Not printed; the letter stated that the experts of the United Fruit Co. had reported the discovery of Panama blight as well as too great alkalinity in the soil of the lower Artibonite Valley.

⁴³ Not printed.

investment account are considered by the fiscal agent as still outstanding. Assuming retirement of all bonds at nominal value, including those in the Treasury investment account, amortization will be completed early in the fiscal year 1945-46. If, on the other hand, bonds in the Treasury investment account are considered as no longer outstanding because of the possibility of their cancellation, amortization would be completed early in fiscal year 1944-45. Assuming the exchange had taken place, final amortization would be extended 9 months.

Assuming average retirement is effected at 80 and assuming the Treasury disposed of none of its holdings, final amortization would take place in 1941-42.

It should be remembered, however, that the bonds in the investment account were purchased with a view to employing accumulated Treasury funds profitably while holding them available for such use as the Government might find desirable at some future time. There is no assurance therefore that the Government will wish to leave these bonds in the Treasury until all other bonds have been redeemed.

Department's paragraph 6. The \$100,000 advance would be used exclusively on the Artibonite project and would not be available for other public works unless our approval were obtained to any modification of the program which might be dictated by unforeseen developments. Even should the bank's offer of a \$400,000 credit be accepted, the \$100,000 would not be borrowed from the bank at this time because it would be cheaper to utilize the Government's own cash reserves. It probably will not be necessary to touch the credit during the current fiscal year as the budget should provide a sufficient surplus to pay for such work as will have been completed by September 30 next. The advantage of the credit is its insurance against the revenue uncertainties of the next fiscal year.

Department's paragraph 7. Pixley states that revenue returns to date indicate a budget surplus for this year of between \$200,000 and \$400,000. At the end of January the Government had on sight deposit \$1,528,036 and on 30 days' time deposit \$107,676. The bonds in the investment account have a nominal value of \$1,983,580. These bonds cost the Government \$1,889,000.

The foregoing has been drafted in conjunction with Pixley. As stated in my telegram No. 14, De la Rue will prepare the report called for in the Department's telegram No. 8 upon his return March 2.

ARMOUR

838.51/2612 : Telegram

The Chargé in Haiti (Heath) to the Secretary of State

PORT-AU-PRINCE, March 10, 1933—5 p. m.

[Received 10:25 p. m.]

23. Legation's telegrams numbers 14 and 15 of February 27 and 28. De la Rue has submitted the report called for in the Department's telegraphic instruction No. 8 of February 25, 12 noon. Copies will be sent by air mail leaving March 11.⁴⁴

The report contains the detailed estimates of the engineers of the cost of completing section 1 of the irrigation of the Artibonite Valley. The cost would be \$400,127 and 7,000 acres would be irrigated at an expense of about \$57 an acre. The dam and all masonry work for section 1 is designed to serve a larger area and the expenditure \$174,000 additional would enable an extra 9,000 acres to be irrigated making the eventual cost only \$36 per acre. De la Rue believes in spite of the alleged discovery of existence of some Panama blight and the disinclination of the Standard Fruit Company to make definite commitments in Haiti for the present that a profitable if limited banana development could be started in the Artibonite, the fruit being sold either to the American concerns which are at present buying small quantities of Haitian bananas or marketed through cooperation with the Independent Growers Association of Jamaica. He points out that practically all banana production is from countries which have been affected by the blight. Jamaica now exporting 16,000,000 stems annually has had it for 60 years. In any case he feels that whether or not the Artibonite is to be utilized for banana production it can be profitably planted to long-fiber cotton. De la Rue recommends that he be authorized immediately to approve the Haitian Government's request for a credit of \$100,000 to begin construction of the Artibonite project. His report states that the present Minister of Finance has been attacked and has lost credit with the Government because of his inability to fulfill his promise to start construction on the Artibonite project before the Legislature convenes. He points out that the Minister of Finance is largely responsible for the creditable performance of the Government during the past year as regards financial matters and treaty obligations.

I have telegraphed the above summary of De la Rue's report as Armour and I concur that it is urgent and desirable that authorization

⁴⁴ Copies of the report, transmitted in despatch No. 94, March 17, from the Chargé in Haiti, were received by the Department on March 20; not printed. (838.51/2616)

of the \$100,000 credit be given without further delay unless the plan envisaged in our previous despatches whereby the President would be able to use the fact of actual construction on the Artibonite project as a lever on the Legislature is to be abandoned. I may say that President Vincent is reliably reported to have informed the Minister of Finance that he would hold him responsible if work on the Artibonite project was not started before the Legislature convenes on April 3. It will be noted that authorization of this initial credit does not automatically engage the Financial Adviser to give immediate approval to requests for further credits to complete the \$400,000 project should unexpected fiscal or other developments render delay in the completion of the project desirable. In any case the time element renders it impossible that the project can be completed during the balance of the present fiscal period. The Treasury has already accumulated a surplus over budget estimates of more than \$200,000, and except in the event of a decided increase in the depression in Haiti's foreign markets the Financial Adviser still believes it probable that the budget surplus this year will approach \$400,000.

HEATH

838.51/2614 : Telegram

The Secretary of State to the Chargé in Haiti (Heath)

WASHINGTON, March 17, 1933—6 p. m.

15. Your 23, March 10, 5 p. m. and 25, March 16, 11 a. m.⁴⁵ Department has been awaiting copy of De la Rue's report before replying to you, but after consideration of summary of report contained in your 23 Department authorizes the Financial Adviser to approve the Haitian Government's request for the use of \$100,000 from the cash reserves to begin work on the Artibonite irrigation project. It is understood that these funds will be expended under the supervision of the Financial Adviser, as in the case of other Haitian funds.

It should be made clear to the Haitian Government that the advance of these funds by the Financial Adviser in no way commits him to approve additional requests for the use of funds from the cash reserves, and also that it of course in no way commits the Department as to a decision on the proposed revolving fund credit if this should eventually be submitted in final form.

HULL

⁴⁵ Latter telegram not printed.

888.51/2677½

Memorandum Prepared by the Division of Latin American Affairs

[WASHINGTON,] April 3, 1933.

GENERAL PRINCIPLES UNDERLYING THE ADMINISTRATION'S POLICY
TOWARDS HAITI

This Government desires to put an end to the special relations between Haiti and the United States at the earliest possible moment consistent with carrying out the obligations which both Governments have assumed towards third parties.

These special relations in general come under two heads:

First, the training of a Haitian police force (Garde) by American marine officers. In order to give moral support to these American officers a Brigade of 850 marines is stationed in Haiti. It has been the policy of the Navy Department that this force could not be withdrawn or reduced so long as American officers remained in the Garde;

Second, third parties purchased bonds of the Haitian Government in reliance on the treaty obligation assumed by both Haiti and the United States to provide efficient financial control in Haiti during the life of the bonds. In good faith neither Government would be warranted in weakening or setting aside these treaty obligations.

Under the first point we intend to withdraw all American forces from Haiti six months after the entrance into force of the new treaty. This includes American officers serving with the Haitian police force as well as the entire Marine Brigade. Under point two we wish to reach an agreement with the Haitians, as required by the Protocol of 1919 which was signed by both Governments, in order to provide satisfactory measures of financial control after the expiration of the present treaty, so that adequate provision be made for the servicing of the bonds. This control will automatically come to an end when the bonds have been redeemed, about 1944.

A memorandum is attached entitled "Policy in Haiti" which gives in more detail the manner in which the foregoing principles would be applied in connection with the treaty now under negotiation with Haiti revising in certain respects the Treaty of September 3, 1932, which failed of ratification by the Haitian Legislature last September.

[Annex]

*Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)* ⁴⁶

[WASHINGTON,] March 31, 1933.

POLICY IN HAITI

After conversations with Minister Armour, the following has been agreed upon as an outline of policy in Haiti:

1) We will continue on the general lines of policy laid down in the unratified treaty of September 3, 1932, for the orderly liquidation of our commitments in Haiti. This Government does not desire to extend in any way the period of its financial stewardship. This principle must be borne in mind in connection with any attempts on Haiti's part to obtain further foreign financing. Any proposed increase in the Haitian public debt will, in accordance with Article 8 of the Treaty of 1915, be referred to the Department for consideration.

2) Various modifications can be made in the terms of the treaty of September 3 which might make it more acceptable to the Haitian legislature and would not disturb questions regarded as of fundamental importance from our point of view. A detailed memorandum regarding such modifications is being prepared. The general principles to cover such modifications are noted hereinafter:

(a) Regarding the covering treaty itself the Haitians have proposed certain clauses covering such matters as the exercise of professions, et cetera. These clauses could in general follow the provisions in the treaties of commerce negotiated by this Government in recent years. No objection is perceived to this being done.

(b) Regarding Protocol A, it is felt that total Haitianization of the Garde and withdrawal of the Marine Brigade could be effected six months after the entrance into force of the treaty. Mr. Armour believes that advancing the date, as this would presumably do by some months, would be feasible and that it would not materially weaken the Garde. The proposal for a military mission was originally made by the Haitian Government. There was, however, criticism of this subsequently in Haiti. We should be willing to omit this provision if the Haitian Government now desires to do so. If, however, Haiti still wants the mission, it should be made clear that it is at the request of the Haitian Government that the mission is provided.

(c) As regards Protocol B, which provides for financial administration, it is not seen how this could be modified in any substantial way. The obligations of both Governments as set forth in existing agreements and which furnish the basis on which people bought the bonds would seem not to warrant this Government in relaxing the measures of financial control. One modification which might be made, however,

⁴⁶ Filed separately under 838.51/2614½.

in case the Haitians wanted it, would be to provide that Protocol B would enter into effect six months after the entrance into force of the treaty. This would turn over the administration of the internal revenues to Haiti at this earlier date rather than in December, 1934, as provided in the September 3 treaty.

3) Reports from the Financial Adviser indicate a probable surplus of about \$400,000 over expenditures for this fiscal year. With approval of the Department, the use of \$100,000 from the surplus has been authorized to begin the irrigation of the Artibonite plain. The question of the use to be made of the surplus funds is one which should be decided in Haiti and we should leave with the Minister power to determine this. It seems likely that in addition to work on the Artibonite President Vincent will want some \$50,000 for drainage work and road building, and also about \$25,000 for development of the growing of cotton, \$5,000 of which has already been authorized. Such expenditures would seem advisable in Haiti's own interests, they would be made from surplus Haitian funds, and, as stated above, control over the use to be made of the surplus revenues should be left to the Minister to determine after getting the advice of the Financial Adviser. This has been the policy followed in the past in our relations with Haiti. Of course, if revenues indicate a failure to come up to estimates at any time, authorization for use of surplus may have to be revised by the Minister.

4) The Legation has been informed indirectly by members of the Government that President Vincent is very much agitated as to what may be the attitude of the legislature during the present session which opens April 3 next. He considers it possible that if the legislature proceeds to vote a budget which is unacceptable to the Haitian Government or to American officials, his veto may be overridden by the legislature and he may then be faced with the necessity of either allowing the legislature to assume control and pass various bills of an unsatisfactory nature, or resort to the dissolution of the legislature. The President has indicated that he would like to know what would be the American Government's attitude were he forced into a position of taking such action. He feels it essential to know what our attitude would be in advance as he does not wish to make a threat to the legislature and later be unable to back it up. The position that has hitherto been taken by both Dr. Munro and Mr. Armour has been that the American Government cannot commit itself in advance as to what would be its attitude in such cases. In other words, that it cannot deal with hypothetical cases but must wait until confronted with all the facts in a situation. The Department feels that this policy is the correct one and should be continued. It should be the aim of the Legation to induce the President to keep within consti-

tutional limits. It is felt that the beginning of construction of public works, which in the President's opinion are needed in the country, will alleviate distress and perhaps have the ultimate effect of smoothing over the President's difficulties with the legislature, but in any case the Department would be reluctant to envisage the necessity of having to support the President in resort to unconstitutional methods of dealing with the matter.

EDWIN C. WILSON

838.51/2625 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, April 13, 1933—2 p. m.

27. You may proceed in accordance with memorandum of policy in Haiti.⁴⁷

HULL

838.51/2636

The Minister in Haiti (Armour) to the Secretary of State

No. 27

PORT-AU-PRINCE, April 25, 1933.
[Received May 2.]

SIR: I have the honor to inform the Department that upon receipt of its telegram No. 27 of April 13, 2 p. m., I called upon the Minister for Foreign Affairs and handed to him the draft of the treaty with Haiti as decided upon during my recent visit to Washington.⁴⁸

M. Blanchet received the draft with evident interest. He expressed, however, disappointment that it had not been found possible to accept the changes proposed by the Haitian Government in its draft of Protocol B, and that my Government felt it necessary to adhere substantially to the text of Protocol B as included in the treaty of September 3, 1932. He asked me whether I thought we would be willing to separate Protocols A and B and to confine the present negotiations to Protocol A, embodying these in a treaty of friendship, leaving the question of the financial control after 1936 for settlement later.

I told the Foreign Minister that my instructions did not authorize me to open negotiations on such a basis and I thought it preferable that our talks for the present be confined to the draft which I had submitted to him. He agreed and accepted the document on that understanding.

Respectfully yours,

NORMAN ARMOUR

⁴⁷ *Supra.*

⁴⁸ Draft not printed.

838.51/2639

The Minister in Haiti (Armour) to the Secretary of State

No. 31

PORT-AU-PRINCE, April 28, 1933.

[Received May 6.]

SIR: With reference to my despatch No. 30 of April 27 last,⁴⁹ I have the honor to inform the Department that, at his request, I called upon the President this morning. M. Blanchet, the Minister for Foreign Affairs, was also present at the interview.

The President confirmed what M. Blanchet had told me of his, the President's talk with the Presidents of the Senate and Chamber when, after studying our draft of the treaty, they had said they were convinced that it would be impossible to secure ratification of such a treaty at this time. The President said that he had been thinking the matter over and that he was convinced they were correct. He mentioned the so-called Hudicourt Resolution recently voted by the Senate,⁵⁰ adding that it had obviously been Senator Hudicourt's intention, by introducing such a resolution, to render impossible ratification of a new treaty, at any rate one following the lines of the September 3 treaty. The President felt, therefore, we must be prepared to proceed along different lines. His plan was substantially that outlined to me by M. Blanchet (see despatch No. 30); namely, to deal with Protocols A and B as two separate units, reaching an accord on each separately, somewhat along the lines of the Haitianization accord of August 5, 1931.⁵¹ The President felt that there was nothing to prevent our reaching an accord at once covering the Haitianization of the Garde and Marine withdrawal, suggesting as a basis his Government's draft of Protocol A, recently submitted to us, with which, he noted, we appeared to be in accord. When I asked him whether the date mentioned therein for the completion of the Haitianization of the Garde, namely, December 31, 1934, still stood, the President said "Yes", unless it was proposed to move the date up a few months, but he did not feel that a date earlier than September 1st, 1934 would be feasible. (The President was quite emphatic on this point, digressing to remark that the real interest of intelligent Haitians lay in securing return of the financial control; in other words, that it was the financial rather than the military aspect that most interested them.) He thought that if an accord on this point could be reached immediately and announcement made, it would clear up all uncertainty and have a good effect throughout the country. We could then, he felt, proceed at our leisure to discuss the terms of the financial ac-

⁴⁹ Not printed.

⁵⁰ See telegram No. 39, April 7, 1933, 9 p. m., from the Chargé in Haiti, p. 789.

⁵¹ *Foreign Relations*, 1931, vol. II, p. 403.

cord. This completed, he proposed our concluding a Treaty of Amity, Commerce and Navigation. (The President did not make it quite clear whether he felt that the accord covering financial control after 1936 would have to be submitted to the Legislature or not. In a talk later with the Foreign Minister, he expressed the opinion that an accord of such a nature would require legislative approval.)

The President asked me what I thought of the plan. I replied, as I had to M. Blanchet on previous occasions, that my instructions were to continue negotiations with the Haitian Government with regard to a treaty covering both the Haitianization of the Garde and the financial control after 1936; that I had no authority to discuss any other plan, certainly not one representing such a departure as this did from the procedure we had been pursuing now for over a year. I added that if he felt that it would be useless to submit our draft of the treaty to the Legislature for ratification, I did not think it would be advisable to insist upon having this done as we were all agreed that a second rejection would be most unfortunate. In view of this, I would present his plan of procedure to Washington: in fact, I had already indicated to the Department, following my talk with M. Blanchet, that the Haitian Government had some such idea in mind. I told the President, however, that, speaking quite unofficially, I thought it unlikely that this procedure would appeal to the Department unless the Haitian Government would be disposed to give definite assurances with regard to the nature of the accord covering financial control which they would be willing to enter into later. In other words, that when the time came to conclude it, the accord would be in substance that represented by Protocol B of the treaty of September 3 rather than that recently submitted by the Haitian Government for the State Department's approval, which, as he already knew, we had found to be quite unacceptable. The President replied that he could not understand why we did not consider the Haitian plan as offering the necessary guarantees to protect the bondholders. He then launched into the old arguments with which the Department is too familiar to require repetition here. I endeavored to point out the objections, even to the extent of reminding him that only a few months ago, with a balanced budget, he had proposed a moratorium on payments of amortization of the loan. But I could see that my arguments were of no avail and the discussion terminated with the understanding that I would report the conversation to the Department for its consideration.

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The most important point brought out in the conversation was the clear indication given by the President that he did not desire an earlier Haitianization of the Garde than that called for in Protocol A

of the treaty of September 3. This flatly contradicts what the Minister of Finance told me in a talk I had with him late in March, just prior to my visit to Washington. . . .

Before, therefore, accepting these statements of the President at their face value, I shall see M. Hibbert and endeavor to ascertain discreetly how far they do represent the considered views of the Government. I shall then be in a position to present to the Department in more definite form what appear to be, from this angle at any rate, the possible courses open to us to pursue. In general, however, I fear that we must reconcile ourselves to the fact that there is virtually no hope of securing ratification of a satisfactory treaty from the present session of the Legislature.

In the meantime, should the Department be able to give me a very general indication of how it will be disposed to view this new proposal, it would be useful to me as background in future talks with Haitian officials.

Respectfully yours,

NORMAN ARMOUR

838.51/2642

The Minister in Haiti (Armour) to the Secretary of State

No. 49

PORT-AU-PRINCE, May 12, 1933.

[Received May 15.]

SIR: With reference to my despatch No. 31 of April 28, 1933 (Subject: New Treaty) and with particular regard to the penultimate paragraph on page six of that despatch,⁵² I have the honor to inform the Department that I took the first opportunity that offered to bring to M. Hibbert's attention the apparent divergence existing between the President's views on treaty revision as he had expressed them to me and as he, M. Hibbert, had explained them to me.

I later had an opportunity to talk with M. Hibbert in person when he told me that he had had a talk with the President and was still of the opinion, in spite of what the President had said to me, that if we would be willing to separate Protocols A and B and to conclude an immediate accord covering Protocol A, the President on his part would give us the written assurance that at a later date, following the adjournment of the present session of the Legislature, he would conclude an accord with us covering the financial control after 1936, the terms of which would be in substance those of Protocol B of the September 3, 1932 treaty. I asked M. Hibbert if he knew what terms

⁵² i. e., the penultimate paragraph of the despatch.

the President would, in such a case, propose for Protocol A. He said he thought the completion of the Haitianization of the Garde by December 31, 1933 and withdrawal of the Marine Corps immediately thereafter: also, the withdrawal of the Scientific Mission, but an officer of the Mission, presumably Captain Chambers the present Director of the Scientific Mission, either to be designated as a member of the American Military Mission, which would remain as planned under Protocol A of the treaty of September 3, or such an officer designated to assist the Service d'Hygiène.

This conversation took place on May 6th last. On May 10th, at the President's request, I called to see him. M. Blanchet, the Minister for Foreign Affairs, was also present. After handing me a personal letter to President Roosevelt (see Legation's despatch No. 48 of May 11, 1933),⁵³ the President went on to ask me whether I had anything new from Washington with regard to the plan we had discussed at our last meeting. I told him that I had not and reminded him of what I had said during our last talk, that I did not feel that in its somewhat indefinite form the State Department had very much to act upon: that I had no instructions to discuss such a plan and had no idea how Washington would view the idea of reaching separate accords on Protocols A and B, but that I felt they would be more disposed to consider the matter if the Haitian Government was, on its part, prepared to give definite assurances that an accord covering financial control after 1936, when reached, would be substantially that set forth in Protocol B of the treaty of September 3.

In spite of what M. Hibbert had told me, the President returned to the same position he had taken during our last talk, presenting the old arguments and expressing his inability to see why, if an irrevocable mandate were given to the bank that the payments for the service of the loan were to take precedence over all other payments, this would not be a sufficient guarantee to the bondholders.

He said that, unfortunately, the spirit of nationalism which had prompted the rejection not only of the treaty but the principle of the treaty last September appeared, if anything, to be strengthening and he felt it would be impossible to secure ratification by the Legislature of an accord that was substantially that rejected last September. I asked him whether he felt that such an accord would have to be submitted to the Legislature for approval. After all, Article VIII of the Protocol of 1919, which had received the necessary approval of the competent Haitian authority, called for some such agreement later and I thought it at least open to debate whether an executive accord would not be sufficient. He said this was so, as far as concerned the handing back to Haitian control of departments or services, such

⁵³ Not printed.

as in the accord of August 5, 1931 and the proposed accord covering matters dealt with in Protocol A of the Treaty. But an agreement covering financial control after 1936, rather than giving something back to Haiti, extended American control and therefore would have to receive legislative approval. And this, he felt, would not be accorded to an agreement following substantially the terms of Protocol B of the September 3 treaty. It would, on the contrary, stiffen Nationalist opposition. However, he felt that if we reached an accord on Protocol A which he could promulgate, this, coupled with the carrying out of the public works program envisaged, would have an excellent effect on the country, etc., etc. At the same time he would be willing to give his solemn assurance that the accord to be reached on Protocol B would adequately protect the bondholders. I replied that, without in any way wishing to doubt this, I did not feel that my Government would consider such a suggestion unless it had very definite assurances as to what the terms of such an accord would be. If I could inform Washington that the Haitian Government would be willing to give us a written assurance that, following an accord on Protocol A, it would at a later date, prior to the 1934 session of the Legislature, reach an accord covering financial control substantially that of Protocol B of the treaty of September 3, this would be a clear and definite proposal for them to consider. The President, however, refused to commit himself and merely stated that he would be willing to give assurances which would, he felt, adequately protect the bondholders.

In all of these talks, I have made it plain that I was without any instructions from the Department other than to discuss a treaty along the lines of that which I had recently presented to them for consideration. I am sure that this is clearly understood. In fact, in my talk with the President reported above, when he told me that he felt the plan he suggested was the one that offered most hope of success and was really the course to follow, I reminded him that there was another possible course; namely, to continue on as at present until some later time when perhaps things seemed more propitious for a treaty along the lines of that of September 3. He disputed this, however, insisting that we must put an end to the persistent rumors with regard to the Haitianization of the Garde and the withdrawal of the Marines and that he felt that this could best be done by reaching an accord immediately and making it public.

I am not yet in a position to make more definite recommendations to the Department as to what would seem—from this angle—to be the best course to pursue, as the situation is changing rapidly and there seems to be much conflict of opinion among President Vincent's advisers as to the course the Haitian government should follow.

In the meantime, it would be helpful to me to have an informal expression of the Department's views as to the general proposal of concluding separate accords on pending issues, provided, of course, that before reaching any agreement regarding the Haitianization of the Garde and withdrawal of the Marine Brigade, the Haitian Government would give written assurances regarding an accord on the question of future financial administration.

Pending an indication of the Department's views and clarification of the situation here, I shall not seek further conversations with the Haitian Government.

Respectfully yours,

NORMAN ARMOUR

838.51/2643 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, May 17, 1933—6 p. m.

[Received May 18—2:40 a. m.]

52. Referring to the Legation's despatches numbers 31 of April 28; and 49 of May 12, I have just been handed a note by the Minister for Foreign Affairs, a translation of which follows:

"With reference to our recent interviews on the definitive liquidation of the Treaty of 1915, it is understood that, after the signature of the accord on the Haitianization of the Garde and the withdrawal of the Marine Brigade and the American Scientific Mission established under the Accord of August 5, 1931, the Haitian Government, by mutual agreement with Your Excellency and on the basis of the principle of the guarantees already given, will devote itself to working out the surest administrative conditions for the stabilization of the regular service of the interest and amortization charges on the loan of 1922.

The Government is anxious to give Your Excellency the assurance that in its efforts to conclude an accord on this question it will devote its sincerest good will to reaching a conclusion which will give entire satisfaction to the bondholders and the protection which they expect from the Government of the United States, without offending national susceptibilities which can harmonize perfectly with the interest which we have always had in respecting our financial engagements."

The Minister for Foreign Affairs asked me particularly to explain that, in view of the rejection by the Legislature not only of the Treaty of September 3 but of the principle of the treaty, they had felt it impossible to include [*refer?*] specifically in the note to Protocols A and B of the Treaty of September 3; but that the phrase "on the basis of the principle of guarantees already given", contained in paragraph 1 of the note, has reference not only to the Treaty of 1915 and to article 8 of the Protocol of 1919 but also to Protocol B of the Treaty of September 3 last.

I should appreciate an expression of the Department's opinion as to whether it considers that the plan to reach two separate accords offers a basis for discussion, as up to the present time I have been careful to make plain that I am not authorized to discuss the question on this basis.

ARMOUR

838.51/2659

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 69

PORT-AU-PRINCE, June 5, 1933.

[Received June 8.]

SIR: With reference to my telegram No. 52 of May 17, 6 p. m. I have the honor to report that in view of the political situation last reported in my telegram No. 57 of May 26, 1 p. m.,⁵⁴ President Vincent has told me that he is particularly anxious to be able to announce at an early date, the conclusion of an executive accord providing for the date of the completion of the Haitianization of the Garde and the withdrawal of the Marines, it being understood that an accord on future financial administration will be reached after the present legislative session.

The Department may therefore wish to consider the advisability of instructing me to discuss the matter with the President along the following lines:

That while the Department has been of the opinion that the program set out in the Treaty of September 3, 1932 should be carried out as a whole and that it could not be put into effect piecemeal it is nevertheless examining in a sympathetic spirit his proposal that separate accords be concluded on military and financial matters.

That while the United States desires to terminate as soon as practical and in an orderly manner the special situation created by the Treaty of 1915, it is bound, equally with the Haitian Government, by the Protocol of 1919 to reach an accord regarding financial administration after 1936. Were it not for these obligations under the Protocol the United States would be glad to terminate its present responsibilities in connection with Haiti's financial administration conjointly with the abrogation of the military clauses of the Treaty of 1915.

That the failure to provide the accord mentioned in Article 8 of the Protocol of 1919 has naturally introduced a complicating factor in the relations of the two governments. The American Government had always felt entire confidence that an accord on the question of future financial administration would be provided before 1936 and this confidence proved to be justified insofar as the Executive Government was concerned, for the Haitian Government recognized and gave expression to the financial obligations, which it shares mutually with

⁵⁴ Not printed.

the United States Government, in Protocol B of the unratified Treaty of September 3, 1932. However the Legislature rejected this treaty, which action would seem to indicate that there is at this time in Haiti a political element which from political considerations, extraneous to the purely legal question involved, either desires to disregard Haiti's obligations under the Protocol of 1919 or is as yet ignorant of these obligations.

That my government feels that under a reasonable interpretation of the Protocol of 1919 it would be justified after 1936, in continuing essentially the existing measure of financial administration even in the absence of the definite accord foreseen in Article VIII of the protocol above mentioned. It feels than [*that?*] an international arbitral tribunal would confirm this interpretation.

Therefore before finally considering the proposal of the Haitian Government that we conclude at this time an executive accord providing for the liquidation of the military clauses of the Treaty of 1915 to be followed in the near future by an accord, subject to legislative ratification, fixing the measures of financial administration to be in effect after 1936, my government desires further assurances as to the exact terms of the accord the Haitian Government is prepared to reach regarding the financial administration after 1936 and what steps it proposes to take to insure its ratification.

I would appreciate being instructed by telegraph whether the Department desires me to discuss with President Vincent his proposal of separate accords on the pending issues along the lines proposed in this despatch. I would also appreciate being instructed at the same time whether the Department is prepared to offer any concessions in the matter of an accord on future financial administration from the terms of Protocol B of the unratified treaty of September 3, 1932, perhaps along the lines of those which I have informally submitted in personal letters to Mr. Wilson.

Respectfully yours,

NORMAN ARMOUR

838.51/2660b

The Acting Secretary of State to the Minister in Haiti (Armour)

No. 63

WASHINGTON, June 17, 1933.

SIR: We have been giving careful consideration to your despatches Nos. 30,⁵⁵ 31, 49 and 54,⁵⁵ and to your letter dated May 19, 1933,⁵⁵ to the Chief of the Latin American Division, all having to do with the question of treaty negotiations with the Haitian Government.

We have noted that President Vincent and other Haitian officials with whom you have discussed this question feel convinced that the proposed draft of the treaty in its present form would fail of ratification by the Haitian legislature, and that it would, therefore, be most

⁵⁵ Not printed.

inadvisable to submit it to the legislature. The Haitian Government has now, in its note to you dated May 16, 1933,⁵⁶ proposed that we should proceed forthwith to sign an agreement for the Haitianization of the Garde and withdrawal of the Marine Brigade, and that the Haitian Government will then negotiate with you a protocol covering financial control for the period after the expiration of the 1915 Treaty. It is noted that the Haitian Minister for Foreign Affairs has said to you that the phrase in the Haitian note of May 16, 1933, "on the basis of the principle of the guarantees already given" referred not only to the guarantees set out in the Treaty of 1915 and in Article VIII of the Protocol of 1919, but also to those included in Protocol B of the unratified September 3 Treaty. However, M. Blanchet was unwilling that this direct reference to Protocol B should be put in writing.

After careful consideration of the proposal outlined in the Haitian note of May 16, we authorize you to proceed on the following lines: You should refrain from making any written reply to the Haitian note of May 16, but should orally inform the Minister for Foreign Affairs that in order to lay this matter in more detail before your Government for its consideration you desire to know the terms of the protocol covering Haitianization of the Garde which the Haitian Government desires to propose, as well as the exact terms of the assurances which the Haitian Government will give as to the form of financial control to be embodied in a subsequent protocol. These assurances should be in writing.

For your own information, it is thought that upon receipt of the aforementioned assurances, if they appear reasonably satisfactory, we could suggest to the Haitians that on the basis of these assurances we should proceed at once to draw up a definite protocol covering financial control. We should then endeavor to reach agreement upon the terms of this protocol before agreeing to put into effect the protocol regarding Haitianization of the Garde and withdrawal of the marine brigade. In this connection it occurs to us that the protocol covering financial control might be treated as an executive agreement not requiring ratification by either Haiti or the United States. For your confidential information you are advised that, if necessary to reach agreement on the text of a financial protocol, the Department would be prepared to give favorable consideration to the concessions which you have recommended in your letter of May 19, 1933, provided the protocol were otherwise substantially in the terms of Protocol B of the unratified treaty. We believe, however, that it would be unwise for you to indicate anything of this nature to the Haitian officials until the Department has first had an opportunity to

⁵⁶ See telegram No. 52, May 17, 6 p. m., from the Minister in Haiti, p. 744.

consider the assurances received from the Haitian Government as to financial control.

In your discussions we desire you to impress strongly on the President and Minister for Foreign Affairs the feeling of this Government that the Haitian Government should take early steps to settle definitively its pending boundary dispute with the Dominican Republic.⁵⁷ The United States Government has for many years been lending its assistance to Haiti for the maintenance of tranquillity and the carrying out of plans for the permanent improvement and stability of that country. The existence of an unsettled boundary problem with Haiti's neighbor obviously contains elements of possible future misunderstanding and even conflict between the two countries. We view it as most important that at the time when we are endeavoring to work out an agreement between Haiti and the United States looking to the ultimate termination of the special relations which have existed between the two countries, the Haitian Government, in agreement with the Dominican Government, should proceed without delay to reconstitute the Boundary Commission so that the Commission may proceed to a definitive demarcation of the frontier line between the two countries.

You will please keep the Department fully advised of the progress of your negotiations.

Very truly yours,

WILLIAM PHILLIPS

838.51/2661

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 85

PORT-AU-PRINCE, June 22, 1933.

[Received June 26 (?).]

SIR: I have the honor to acknowledge receipt of the Department's air mail instruction No. 63 of June 17, 1933 with regard to the question of treaty negotiations with the Haitian Government. I note that, after consideration of the proposal outlined in the Haitian Government's note of May 16, the Department authorizes me to proceed on the following lines: To refrain from making any written reply to the Haitian note of May 16 but orally to inform the Minister for Foreign Affairs that in order to lay this matter in more detail before my Government for its consideration I desire to know the terms of the protocol covering Haitianization of the Garde which the Haitian Government desires to propose, as well as the exact terms of the assurances which the Haitian Government will give as to the form of financial control to be embodied in a subsequent protocol, and that these assurances should be in writing.

⁵⁷ For previous correspondence, see *Foreign Relations*, 1931, vol. 1, pp. 771 ff.

The instruction then goes on to state, for my information, that should the assurances "appear reasonably satisfactory we could suggest to the Haitians that on the basis of these assurances we should proceed at once to draw up a definite protocol covering financial control."

I was afraid that if I were to make a request for "further assurances" that the Minister for Foreign Affairs would reply that adequate assurances were given in the Haitian Government's note of May 16. I therefore felt it advisable to eliminate the intervening step and informed the Minister that in order to lay this matter more in detail before my Government I desired to be acquainted with the exact terms of the accord which they would be willing to sign. M. Blanchet took the matter up with the President and yesterday informed me that the President hoped very much that the American Government would not insist upon this as it would take some time for them to draw up the text of the financial accord which they had in mind and the President felt that in the meantime it was important, for political reasons, to be in a position to announce the conclusion of an agreement covering Haitianization of the Garde and the withdrawal of the American Marine Brigade. He then handed me the text of the accord which they were willing to sign. A copy and analysis of this document are enclosed.⁵⁸ M. Blanchet explained that the procedure that he and the President had had in mind in making their proposal of May 16 had been to reach an immediate accord on the Haitianization of the Garde and the withdrawal of the Marine Brigade, the announcement of which would, they felt, have an excellent effect on the general political situation, and, having thus disposed of one-half—albeit the simpler one—of the problem, to concentrate our efforts during the next months on reaching an agreement on the text of an accord covering financial control after 1936. He pointed out that their note of May 16 had given solemn assurance that they would reach such an accord and that they would use as a base for the accord the "principle of the guarantees already stipulated." Furthermore, as he had orally informed me, and he wished once more to confirm this assurance, the Haitian Government, while unable to say so in writing the note for reasons explained on a previous occasion, was willing to give categorical oral assurance that they would, in addition to the bases referred to above, use Protocol B of the Treaty of September 3 as a further basis of the accord to be reached.

In view of these assurances, M. Blanchet stated that he was reluctantly forced to state that further insistence by our Government upon having in writing the exact terms of the accord covering

⁵⁸ Not printed.

financial control could only be interpreted as doubting the good faith of the assurances already given by the Haitian Government.

I replied to M. Blanchet that I did not feel that such an interpretation was justified by the facts; that while my Government was certainly prepared to accept in the spirit in which it was given the assurance contained in the Haitian Government's note, it nevertheless felt that, as shown by past experience, the Haitian Government's interpretation of the language used in the documents which they propose to have serve as a basis for the accord, notably the Treaty of 1915, the Protocol of 1919, the Loan Contract, and Protocol B of the unratified Treaty of 1932, differed widely from the interpretation placed by the American Government on the same documents: in other words, that the Haitian Government felt that the mutual obligations assumed by our two governments vis-à-vis the purchasers of the bonds could, under the guarantees mentioned, be discharged by the use of far less control on the part of the fiscal representative than the American Government felt should properly be exercised. Therefore, without in any way doubting the good faith of the Haitian Government when it stated that it was willing to reach an accord based upon these documents, I thought that my Government probably felt it would serve to prevent misunderstanding in the future if we could be informed of the precise terms of such an accord as the Haitian Government proposed to offer. I pointed out that if there seemed to be a meeting of the minds, as indicated in the Haitian note of May 16 and in my talks with the Minister, I could not see why a protracted period of negotiation, such as envisaged by the Foreign Minister, would be necessary to reach an agreement on the terms of the accord and I suggested that if the Minister would take the text of Protocol B in one column and note against it, in a second column, those paragraphs with which the Haitian Government was in accord and those in which it suggested a change in phraseology or form, I felt that there was no reason why he could not give us, perhaps not in finished form, the text of the accord that they were willing to sign.

M. Blanchet, however, seemed to be unconvinced by my arguments and returned to the same position that they felt that we should be satisfied with the assurances that they had given as to the accord that they were willing to make; that we should reach an immediate agreement on Protocol A and then concentrate our efforts on finding a solution to Protocol B along the lines indicated in their note of May 16. I asked M. Blanchet whether he wished me to consider this a final reply and so report to my Government but he asked me to wait until he had had an opportunity of discussing the matter further with the President and that he hoped within a day or two to be in a position to let me know their final decision.

With regard to the penultimate paragraph on page 2 of the Department's instruction, that dealing with a settlement of the pending boundary dispute with the Dominican Republic, the Minister for Foreign Affairs stated that they had virtually reached an agreement with the Dominican Minister to proceed to reconstitute the boundary commission in order that the commission might proceed to a definitive demarcation of the boundary line between the two countries. In other words, M. Blanchet seemed to feel that this problem was well on the way to a solution, although I must confess that in view of the past history of this question and the present internal political situation, notably the relations between the executive and legislative branches of the Government, I am inclined to be less sanguine than M. Blanchet appears to be as to the probability of a solution at an early date.

To return to the question of the treaty, if I may present my own recommendation for the Department's consideration, it would be that if the Haitian Government accepts our proposal to submit in rough form the terms of the agreement they are willing to make, if these prove satisfactory or if through subsequent negotiation we are able to reach agreement on such terms, we propose that a memorandum embodying these be initialed and that the final drafting and signing of the accord be left to a later date. As to the Department's suggestion that the protocol covering financial control might be treated as an executive agreement not requiring ratification by either Haiti or the United States, the Minister informed me that while he had taken this point up with the President the latter had not yet reached a decision on it. M. Blanchet, however, seemed inclined to dispute the theory that because the Protocol of 1919 had been duly ratified that the accord providing for financial administration after 1936, which it envisages, need not be submitted for ratification. He stated that the Protocol of 1919 was of a purely provisional nature; that when it was signed a loan had not been effected and no loan contract was in existence. In fact, that it was not until three years later that the loan actually became an accomplished fact. Had the terms of the loan when made called for its final payment before 1936, that is prior to the expiration of the Treaty of 1915, there would have been no necessity to put into effect the Protocol of 1919. In view of this, he thought that the Protocol of 1919 furnished a weak basis for the argument that it carried with it the necessary legislative approval for a later accord covering financial control, such as that into which we now propose to enter. I took issue with M. Blanchet on this point on the ground that it seemed to me there could be no objection to concluding a protocol or treaty which envisaged the conclusion of a certain act as a condition precedent to the putting into effect of the treaty or protocol and that, in the case of the Protocol of 1919, the conclusion

of the loan three years after the signing of the protocol automatically fulfilled the condition and put into effect the protocol.

I am expecting to hear from M. Blanchet any day with regard to the final decision of the Haitian Government on the above questions but, in the meantime, I thought it advisable to report my conversations to date and particularly to request the Department to inform me whether my interpretation of its instructions as contained in the last paragraph of page 1 of instruction No. 63 is in accordance with the Department's views.

Respectfully yours,

NORMAN ARMOUR

838.51/2664

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 88

PORT-AU-PRINCE, June 26, 1933.

[Received June 29.]

SIR: I have the honor to transmit herewith the text, together with translation thereof, of a suggested agreement covering financial control after 1936 which M. Blanchet, the Minister for Foreign Affairs, handed to me yesterday.⁶⁰

On Friday, June 23, M. Blanchet requested me to come to the Foreign Office, at which time he read me the enclosed text and asked me whether I thought it would be acceptable to my Government. I pointed out certain obvious objections, notably the omission of the paragraph requiring the accord of the fiscal representative in determining the budget. M. Blanchet, however, asked me to examine the copy at greater length, intimating that he would be willing to consider any suggestions we might have to offer. He admitted that the draft had been hastily prepared by the President and himself following his talk with me last Wednesday, June 21, but assured me that it was the desire of his Government to do everything possible to come to an agreement with us.

I shall forward to the Department by the next air mail an analysis of this latest proposal.⁶⁰ In the meantime, I am sending a copy of the text to the Financial Adviser-General Receiver for his confidential information with the request that he examine it and let me have the benefit of his views, which I hope to have in time to enclose with my own.

Respectfully yours,

NORMAN ARMOUR

⁶⁰ Not printed.

838.51/2661 : Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, July 11, 1933—noon.

43. Your despatch No. 85, June 22, 1933. Department approves your elimination of the intervening step in its instruction No. 63 of June 17, as explained on page 2 of despatch under acknowledgement.

For your own confidential information, Department considers that Haitian draft covering financial control transmitted with your despatch 88 of June 26 offers reasonable basis of discussion. When we have received report of your latest conversations with Haitian officials we will instruct you more definitely in the matter. In view of improvement in Haiti's financial situation since the negotiation of the September 1932 treaty, as well as advisability of reaching agreement on financial protocol at same time as on Haitianization of the Garde, Department will feel warranted in considering certain concessions to the Haitian point of view, provided of course that the essential provisions required by the 1915 treaty and the 1919 protocol for the protection of the bondholders are incorporated in the agreement.

PHILLIPS

838.00/3151 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, July 12, 1933—5 p. m.

[Received 8:33 p. m.]

71. I am to have today a statement from the President setting forth the powers which he proposes to ask the people to grant him with a view to solving the present internal political impasse. Furthermore, I expect to have by Friday a text of an accord covering financial control which the Haitian Government is willing to sign. If the Department perceives no objection, I am to fly up to Washington leaving here July 15 and reporting to Department morning 17th, Haiti by plane 23rd. Please instruct.⁶¹

ARMOUR

838.51/2676 : Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, August 4, 1933—5 p. m.

52. Your 82, and 83 and 84.⁶² Certain difficulties of a legal nature have now been raised regarding the Agreement for Financial Control

⁶¹ The Minister was instructed, in Department's telegram No. 44, July 13, 3 p. m., to report at Washington for consultation at his earliest convenience.

⁶² None printed.

which require further consideration. Also it appears advisable to await arrival of the Secretary the first of next week. I greatly regret delay but will instruct you at the earliest possible moment.

PHILLIPS

838.51/2680 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, August 4, 1933—9 p. m.

[Received 10:20 p. m.]

88. For Edwin Wilson. Department's telegram No. 52, August 4, 5 p. m. A very delicate internal political situation which has existed here for some weeks was satisfactorily adjusted last night through a reconciliation between the President and the Senate. In reaching the decision to abandon a plebiscite and not to resort to extraconstitutional methods the President showed a commendable desire to meet our point of view as decided upon when I was in the Department. In announcing the settlement he referred to an approaching event of great importance to the country and certain Senators have been taken into his confidence regarding the terms of the forthcoming accord. The President insists and I heartily concur that it is of the utmost importance that the accord be signed and published as otherwise those who have fomented the trouble between the President and the Senate will use the delay not only to create suspicion but to open an advance attack against the signing of any treaty or accord. Having received the distinct impression when in Washington that the Department was ready to sign either draft of the accord and as the one we propose to sign is the more favorable of the two I felt safe in assuring the President this morning that I believed that there would be no difficulty in arranging for the signing tomorrow. If therefore the Department insists upon delay an embarrassing situation will be created. In fact I am not at all sure that the accord itself will not be endangered.⁶³

ARMOUR

838.51/2684 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, August 7, 1933—2 p. m.

[Received 3 p. m.]

91. Agreement was signed and interpretative notes exchanged this morning. It will be noted this is a single agreement starting with the

⁶³ The Acting Secretary of State on August 5 authorized the Minister in Haiti to sign the agreement (838.51/2678, 2683).

simple statement "the undersigned plenipotentiaries, et cetera, have agreed upon the following accord". The Garde accord forms the first six articles to the agreement and thereafter a sub-heading, but no transitional paragraph between it and the financial arrangement, the first article of which is No. VII of the complete agreement. Please note that the date in articles VII and XI has been changed to January 1st, 1934. The last article is number XXVII.

The accord may be released immediately. Text will be sent by air-mail tomorrow.

ARMOUR

Executive Agreement Series No. 46

*Agreement Between the United States of America and Haiti for the Haitianization of the Garde and Withdrawal of Military Forces From Haiti and Financial Arrangement, Signed August 7, 1933*⁴⁴

SECTION I

HAITIANIZATION OF THE GARDE D'HAITI AND WITHDRAWAL OF MILITARY FORCES FROM HAITI

The undersigned plenipotentiaries, duly authorized by their respective governments, have agreed upon the following Accord:

ARTICLE I

The American officers now serving with the Garde d'Haiti will be replaced in such a manner that by October 1, 1934, the Garde shall be completely commanded by Haitian officers.

ARTICLE II

On October 1, 1934, the Garde, under complete command of Haitian officers, will be turned over to a Colonel in active service whom the President of the Republic shall designate as Commandant.

ARTICLE III

The promotions to be effected until the complete Haitianization of the Garde will be made after examinations held in the presence of the representative of the Government of Haiti in conformity with Article X of the Treaty of September 16, 1915.

ARTICLE IV

To complete the instruction, training and discipline of the Garde the President of Haiti, may, if he consider it desirable, request the

⁴⁴ Signed in English and French; French text not printed.

President of the United States to designate a Military Mission of not more than seven members among the American officers who have served in Haiti. The powers to be granted to this Mission will be determined by a decree of the President of Haiti. The services of this Mission shall terminate at the request of either party to the agreement upon sixty days notice given by either party.

ARTICLE V

The withdrawal of the Marine Brigade of the United States and the American Scientific Mission established by the Accord of August 5, 1931, shall commence on October 1, 1934, and shall be completed within thirty days.

ARTICLE VI

The Government of Haiti, in order to preserve public order, assumes the obligation of maintaining strict discipline in the Garde and of applying for this purpose the present regulations of the Garde d'Haiti.

It will enact a statute which will fix the conditions of appointment, promotion and retirement in the Garde. It will also take all legislative measures recognized as necessary to guarantee public peace and security.

SECTION II

FINANCIAL ARRANGEMENT. ADJUSTMENT OF FINANCIAL GUARANTEES STIPULATED IN THE PROTOCOL OF 1919 AND THE LOAN CONTRACT OF 1922

ARTICLE VII

Beginning January 1, 1934, the services of the Financial Adviser-General Receiver and of the Deputy General Receiver shall be carried on, in fulfillment of the obligations and guarantees undertaken in order to obtain the loan issued in accord with the Protocol of October 3, 1919, by a Fiscal Representative and a Deputy Fiscal Representative, appointed by the President of the Republic upon nomination of the President of the United States, who shall exercise the powers hereinafter set forth.

ARTICLE VIII

As the Customs Revenues constitute the principal pledge to the holders of the bonds of the 1922 loan, the Fiscal Representative will have under his direction, until the complete amortization or the prior refunding of the loan under reference, the Customs Service and the application of the laws relative thereto. In addition he shall inspect the activities of the Internal Revenue Service and make appropriate

recommendations for its proper operation; he shall be in charge of the existing Service of Payments, reserve being made of the provisions of Article XII hereafter; he shall maintain adequate records of receipts and disbursements which records shall be open to inspection and verification by the appropriate authorities; and he shall submit monthly reports of his activities to the Secretary of State for Finance and the Secretary of State of the United States.

In order properly to carry out his duties, the Fiscal Representative shall have such employees and assistants as may appear necessary. The number of Americans so employed shall not exceed eighteen. The President of Haiti, upon the presentation which will be made to him by the Secretary of State for Finance, will commission as of January 1, 1934, the employees occupying positions of authority and trust under the Fiscal Representative and recommended by the latter. Thereafter, any position which may become vacant among the commissioned employees shall be filled by examination, the form and procedure of which shall be determined by an accord between the Secretary of State for Finance and the Fiscal Representative. The successful competitor in such examination shall be recommended for the vacancy and will be commissioned by the President of Haiti. Such commissioned employees may be suspended without pay by the Fiscal Representative, on charges filed with the Secretary of State for Finance and such employee or assistant shall not be reinstated unless the charges shall have been disproved to the satisfaction of the Secretary of State for Finance, and of the Fiscal Representative. Pending the hearing of the charges made, the Fiscal Representative, after a report to the Secretary of State for Finance, may fill the vacancy provisionally, if necessary, until the charges have been disproved or a new commission issued.

ARTICLE IX

The salaries of the Fiscal Representative and of the Deputy Fiscal Representative shall be made the subject of an accord between the two Governments. These salaries, together with the expenses of the activities of the Fiscal Representative, but excluding the expenses of the Internal Revenue Inspection Service, may not exceed five per centum of customs receipts except by agreement between the two Governments.

ARTICLE X

The Internal Revenue Service, the personnel of which shall be exclusively Haitian, shall be placed in charge of a Haitian Director under the Secretary of State for Finance.

Nevertheless, if the Fiscal Representative should notify the Secretary of State for Finance and the Director General of Internal Reve-

nue in writing that there is reason to suppose any officer or employee of the Internal Revenue Service is inefficient, or that his action is not correct, such officer or employee shall be suspended, and not reinstated unless the charges shall have been disproved to the satisfaction of the Secretary of State for Finance.

The expenses of the Internal Revenue Service shall be paid from the funds set aside for this purpose by the National Bank of the Republic of Haiti in accordance with schedules of payments agreed upon between the Secretary of State for Finance and the Fiscal Representative. These expenses shall not exceed ten per centum of internal revenue receipts, and the expenses of the Internal Revenue Inspection Service shall not exceed five per centum of internal revenue receipts. Any sums not required by the Internal Revenue Inspection Service within this allowance shall be made available to the Internal Revenue Service.

ARTICLE XI

On and after January 1, 1934, all monies received by or for the Haitian Government shall be deposited in the National Bank of the Republic of Haiti to the credit of the Haitian Government with the exception of the five per centum of customs revenues foreseen in Article IX above and the amounts needed for payments connected with execution of the loan contracts, which amounts shall be credited to the Fiscal Representative. The National Bank of the Republic of Haiti also shall set aside preferentially each month to the credit of the Fiscal Representative the amounts provided in Article X above for the expenses of the Internal Revenue Service and of the Internal Revenue Inspection Service.

In order to assure the maintenance of public order, the monthly allocation for the Garde d'Haiti will be set aside preferentially by the National Bank of the Republic of Haiti for the exclusive use of the Garde from the funds thereafter remaining.

ARTICLE XII

All payments of Government funds shall continue to be made by checks prepared by the Service of Payments. The existing arrangement, as agreed upon between the two Governments on August 5, 1931, shall continue to govern this service except that all checks henceforth will be signed by the Secretary of State for Finance, or his delegate, reserve being made in the case of those checks drawn against the funds deposited at the National Bank of the Republic of Haiti to the credit of the Fiscal Representative, which checks shall be signed only by the latter, or his delegate.

ARTICLE XIII

Each year, by January 31st at the latest, the Fiscal Representative shall present a detailed estimate of receipts for the following fiscal year. Except by special agreement, the budget of the Republic shall not exceed the amount of probable ways and means which the Secretary of State for Finance and the Fiscal Representative shall have agreed upon.

ARTICLE XIV

The Haitian Government may authorize any appropriations whatsoever if unobligated funds are available, or derivable at an early date from the ordinary revenues, to cover such appropriations after setting up such reserves as may appear to the Secretary of State for Finance and the Fiscal Representative to be necessary.

ARTICLE XV

In case of a probable budgetary deficit, expenditures must be brought to the level of ways and means, either by reducing expenditures or by the creation of new receipts. In every case, it will not be possible without the accord of the Fiscal Representative to cover a deficit by calling upon the reserve funds of the Government.

ARTICLE XVI

There shall be included annually in the budget of the Republic the amounts necessary for the regular service of the funded debt and other contractual obligations, as well as two lump sums representing five per centum of customs and five per centum of internal revenues, respectively, for the payment of the expenses of the Fiscal Representative, and those of the Internal Revenue Inspection Service, and finally a lump sum representing ten per centum of internal revenue receipts for the payment of the expenses of the Internal Revenue Service. The balance may be apportioned by the Haitian Government between the budgets of the various departments as it may see fit. If the revenues received in any month shall be insufficient to meet the full debt service and expenses of collection, the Government will make available the amount required to make up the difference.

ARTICLE XVII

Without the accord of the Fiscal Representative no new financial obligation will be assumed unless the ordinary revenues of the Republic, after defraying the expenses of the Government, shall be adequate to assure the final discharge of such obligation.

ARTICLE XVIII

The Government will not dispose of its investments except with the accord of the Fiscal Representative.

ARTICLE XIX

The present finance law shall be the organic act of the Republic so far as concerns the administration of government finances.

ARTICLE XX

The Government of Haiti agrees not to reduce the tariff nor to modify the taxes and internal revenues in such a manner as to reduce the total amount thereof without the accord of the Fiscal Representative.

ARTICLE XXI

The Custom Houses of the Republic will have an exclusively Haitian personnel and the title of Director shall be reestablished in lieu of that of Collector. However, inspectors of the Customs Service may be assigned, either temporarily or permanently, to oversee the operation and the strict application of the customs laws.

ARTICLE XXII

In case of payment under protest of customs duties or internal revenue taxes, and where restitution of such payment is requested, a written claim shall be presented to the competent service within a time limit of thirty working days beginning with the date on which the duties or taxes were paid. If the decision is not accepted, the matter shall be presented to a commission composed of a representative of the Secretary of State for Finance and a representative of the Fiscal Representative.

If there should still be failure to reach an agreement, the claim for restitution shall be decided by legal proceedings, but the State may not be liable for any compensatory or punitive damages.

ARTICLE XXIII

In view of the fact that under normal conditions the operation of the sinking fund will result in retirement of the outstanding series of the loan authorized by the law of June 26, 1922, approximately by the year 1944, and inasmuch as any further issue of the loan would necessarily extend the operation of this agreement, to a period beyond that year, which extension is contrary to their desire, it is hereby agreed by both Governments that the loan shall be considered closed and that no additional series shall be issued thereunder.

ARTICLE XXIV

In case there should appear to be occasion for judicial proceedings against the Fiscal Representative or his American assistants, the two Governments, in order to avoid possible misunderstanding, agree to examine each case impartially and to agree upon the legal action which might be appropriate.

ARTICLE XXV

The Haitian Government, upon the signature of the present agreement, will issue irrevocable instructions to the National Bank of the Republic of Haiti in order that there may be full and complete execution of the clauses herein respecting the deposit and disbursement of the funds of the Government.

ARTICLE XXVI

The Haitian Government reserves the right to retire the bonds issued in accord with the Protocol of October 3, 1919, in advance of their due date; and the Government of the United States will not invoke the provisions of Article VI of the Protocol as an obstacle to such retirement before the expiration of the period of fifteen years fixed therein, provided that the Haitian Government is able to make an arrangement for this purpose satisfactory to the holders of the outstanding bonds.

In this case the provisions of this accord shall automatically become null and void and of no effect upon the completion of the funding operation. The Haitian Government in order to hasten the retirement of the loan of 1922 may continue as rapidly as its resources will permit, to buy on the open market bonds of the several series of the said loan.

ARTICLE XXVII

Any controversy which may arise between the two Governments on the subject of the clauses of the present accord shall be submitted to arbitration in case it cannot be settled through diplomatic channels, in accordance with the Arbitration Treaty of January 7, 1909 between the two countries.⁶⁵

Signed at Port-au-Prince in duplicate in the English and French languages, this seventh day of August, 1933.

[SEAL]

NORMAN ARMOUR

[SEAL]

A. BLANCHET

⁶⁵ *Foreign Relations*, 1909, p. 359.

838.51/2690

*The American Minister in Haiti (Armour) to the Haitian Secretary of State for Foreign Affairs (Blanchet)*⁶⁶

PORT-AU-PRINCE, August 7, 1933.

EXCELLENCY: With reference to the Agreement signed today between the United States and Haiti, my Government understands the statement in the first sentence of Article VIII that "the Fiscal Representative will have under his direction, until the complete amortization, or prior refunding of the loan under reference, the Customs Service and the application of the laws relative thereto" to mean that he shall collect the customs duties and have under his direction the Customs Service and the application of the laws relative thereto.

It is further understanding of my Government that the financial arrangement signed today has for its purpose the better execution of the Treaty of September 16, 1915 and provision for the financial control envisaged in Article VIII of the Protocol of October 3, 1919.

Accept [etc.]

NORMAN ARMOUR

838.51/2686: Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, August 8, 1933—6 p. m.

62. Your 93, August 7, 6 p. m.⁶⁷ At press conference this afternoon the Secretary said that it was a matter of gratification that the liberal terms of the Haitian Agreement were very satisfactory to all concerned, that it was also gratifying to note that what is generally recognized as a very efficient administration by the Government of President Vincent was measurably responsible for these steps being taken, including the bringing out of the troops the latter part of next year.

HULL

838.51/2689: Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, August 9, 1933—2 p. m.

[Received August 10—1:25 a. m.]

97. The publication of the agreement has been received with unanimous satisfaction amounting almost to enthusiasm. While naturally

⁶⁶ The Haitian Secretary of State for Foreign Affairs addressed a similar note, in French, on the same date, to the American Minister in Haiti (not printed). The texts of these notes were transmitted to the Department by the Minister in Haiti in his despatch No. 101, August 7; received August 10.

⁶⁷ Not printed.

the Government press greets it as a great victory for President Vincent, Mr. Chauvet in the *Nouvelliste* admits that it is all they could have hoped for or expected. Senators Pradel and Price Mars and Mr. George Leger have assured me they consider the agreement eminently fair and reasonable and will give it their full support; while Senator Hudicourt goes so far as to say that if referred to the National Assembly, as he hopes it will be by the President, it will be approved.

One very encouraging result of the agreement has been the bringing together of opposing elements in the Government and Legislature and if, as seems probable, the President changes his Cabinet later, there is a distinct prospect of peace and unity for the next few months. The President has assured me he will not call a special session this year as he had planned although he may do so January next. He plans to be absent from the capital during much of the next month.

ARMOUR

838.00/3164

The Secretary of State to the Chargé in Haiti (Heath)

No. 85

WASHINGTON, September 12, 1933.

SIR: The Department has received your despatch No. 119 of September 2, 1933,⁶⁸ relating to the activities of the opposition group and the press with respect to the Accord of August 7, 1933, and the Government's proposal to take repressive measures against the press in the event that it should commence a campaign against the Accord.

While it is unfortunate that the opposition press should use the Accord as a means to criticize and embarrass the Government, the Department believes that no good purpose would be served by suppressing or otherwise drastically hampering the press. Furthermore, should the Government determine to carry out its proposed measures in such a manner that its action would be contrary to a fair and just interpretation of the local press laws, the Department obviously might be constrained to consider whether it could properly permit the use of the Garde for such purposes. The Department approves the views which you expressed to M. Blanchet in the matter as reported in your despatch under reference.

The Department hopes that the publicity which you were authorized to use in the Department's telegraphic instructions, Nos. 67 and 68,⁶⁹ will be sufficient to put an end to the unwarranted misrepresentations recently made by the opposition press with respect to the Accord, and that it will not be necessary to inform the Haitian Government of the Department's views as to the use of the Garde as expressed above.

⁶⁸ Not printed.

⁶⁹ Neither printed.

However, should the Government persist in its proposal to use drastic and unjustified measures to curb the press you are authorized informally and orally to bring to the attention of the Minister of Foreign Relations the Department's views as set forth above.

Very truly yours,

For the Secretary of State:

JEFFERSON CAFFERY

838.51/2767

The President of Haiti (Vincent) to President Roosevelt

[Translation ⁷⁰]

PORT-AU-PRINCE, November 16, 1933.

MR. PRESIDENT: Following the signature of our agreement of August 7 last, it seemed to me to be opportune and I still think it useful to write to Your Excellency a special letter with respect to that significant event, the importance of which cannot be exaggerated in view of its significance and scope and also because of the hope it arouses and the promise which it implies, the fulfillment of which it is reasonable to expect in the near future.

It was, at the same time, an occasion—and I seize the opportunity with great pleasure—to render merited homage to the distinguished plenipotentiary of Your Excellency: It is, indeed, only justice, in view of the tact and the uprightness of Mr. Norman Armour, in view of all the qualities of the man which have so well served the diplomat during the delicate negotiations which ended in the result for which our two Governments may well congratulate themselves.

For its part the Haitian Government animated, as Your Excellency is well aware, by a sincere desire to maintain with the Government of the United States relations of peace and friendship based on equity, gave a most striking proof of its good will, of its loyalty, of its scrupulous respect for international engagements, of its firm resolve to execute them in good faith, not only those which it inherited from preceding governments but its own. This is the exact significance of the financial provisions of the agreement of August 7 which, although they are in conformity with the stipulations of the protocol of 1919 and of the loan contract of 1922, are, nevertheless, of a nature, as indeed were these previous engagements themselves, to infringe the essential attributes of the sovereignty of a friendly nation.

Is this disparagement of a member of the great Pan-American family, after all, really necessary?

It is now the glory of Your Excellency to have inaugurated in our hemisphere the highest policy which could be conceived and the most

⁷⁰ Translation filed separately under 838.51/2739.

intelligent one to be put into effect by the Chief of the greatest and most powerful State of the Americas: A policy tending to create an atmosphere of solidarity and security as between the American peoples, to bring them together in grouping and conciliating their interests in such a manner as to make the ensemble of the American States a sort of international unit based on the political sovereignty of the nations and the precise realization of their responsibilities to each other.

What a splendid policy this new policy of good will is! After having contributed to the leveling of many difficulties and to the facilitating of the return of our principal public services, by assuring the complete liberation of our territory on October 1, 1934, it justifies our desire to resume our complete sovereignty as rapidly as possible.

Following and in consequence of the official acts which occurred in 1919 and 1922, our agreement of August 7 recognizes that what remains of the financial control, which the United States have exercised in our country, is based upon the guarantee of the interest and of the amortization of the loan of 1922.

The Republic of Haiti, in spite of the unprecedented crisis which still holds the world in its grip and from which it has suffered terribly, as have the other countries, not only has regularly met its engagements but has even paid several years of amortization in advance. It is, perhaps, the only country which has done this and such conduct with respect to the creditors proves that the latter need have no serious fear with regard to the perfect regularity of the service of the Haitian debt in the future.

The United States holds, under the Platt Amendment, the right to intervene in Cuba, and despite the development of an evidently dangerous political situation in that interesting neighboring country,⁷¹ we remark that it is its view that the situation in Cuba is a Cuban problem the solution of which should only be found by means of Cuban methods. This fine and generous attitude of the Government of the United States has made the most favorable impression on the Haitian people, as well as on the other members of the Pan American Union, and it is profoundly instructive.

The Haitian Government has faithfully adhered to its program of freeing itself without any conflict with the United States from the exceptional regime established by the treaty of 1915 and the subsequent agreements. It is permissible for it to envisage and it hopes, with a legitimate conviction, that, on its side, the Government of the United States wishing to give a new proof of its desire henceforth to be a good neighbor of all the American States, will be able to renounce a useless financial control in Haiti by a spontaneous act which would

⁷¹ See pp. 270 ff.

be the most eloquent affirmation of a common will towards friendship, towards better understanding, towards inter-American economic co-operation and collaboration for the wellbeing respectively of the nations of the three Americas.

It is with this comforting hope, Mr. President, that I have the pleasure of renewing to Your Excellency the assurances of my strong and constant friendship.

STENIO VINCENT

888.51/2740

Memorandum by Mr. Donald R. Heath of the Division of Latin American Affairs

[WASHINGTON,] November 22, 1933.

M. Blanchet, formerly Haitian Minister of Foreign Affairs and just appointed Haitian Minister in Washington, phoned me Tuesday evening about eight o'clock and asked if he could see me at the Legation.

At the Haitian Legation M. Blanchet informed me that upon his arrival Monday Nov. 20 in New York, the Haitian Consul General had handed him a telegram from President Vincent reading, in translation, as follows:

"Tell Blanchet absolutely urgent transmit letter by tomorrow."

M. Blanchet stated that this referred to a personal letter from President Vincent of Haiti to the President⁷² on the subject of the Haitian-American Agreement of August 7, 1933. He asked, in view of President Vincent's urgent instructions, whether I would not accept the letter at once for transmittal. He stated that before he could officially present the letter to the Department for transmittal it would be necessary for him to write a note announcing his appointment as Haitian Minister and make an official call, etc., which would entail delay, and that he would like to return to New York the same evening. After consultation with Mr. McGurk, Assistant Chief of the Latin American Division, I accepted the letter for transmittal and promised that M. Blanchet's observations would be communicated to the Acting Secretary.

M. Blanchet then handed me a copy of the letter for the Department's files and stated that in the opinion of President Vincent and himself it was important, not only as regards Haitian-American relations but as regards relations of the United States with other Latin American countries, that this letter and a reply from President Roosevelt should be made public before the opening of the Pan Ameri-

⁷² *Supra*.

can Conference at Montevideo.⁷³ He stated that, in his opinion, publication of the letter and reply would have a favorable effect on the atmosphere of the Montevideo Conference. He said that he did not anticipate that President Roosevelt would be able to make an immediate thorough investigation of the situation, but that his Government hoped to receive a prompt and cordial acknowledgement stating that President Roosevelt would look into the matter to see what could properly be done to meet the desires of President Vincent.

D[ONALD] R. H[EATH]

838.51/2767

President Roosevelt to the President of Haiti (Vincent)

WASHINGTON, November 29, 1933.

DEAR MR. PRESIDENT: I beg to acknowledge receipt of your letter dated November 16, 1933, relating to the Financial Arrangement embodied in the Agreement of August 7, 1933, between our two countries. Permit me at the outset to express my warm admiration for the manner in which the Haitian Government has loyally honored its financial obligations. It was, as Secretary Hull stated on August 8, 1933, in large measure due to the efficient administration of Your Excellency's Government that it was found possible to arrive at an agreement so favorable to Haiti in its terms.

I am glad to read in your letter what has been so clearly implied in the actions of your Government, namely, that Haiti intends to continue to fulfill loyally its obligations in this field. So far as the United States Government is concerned, I may say that in my judgment this Government is under an unescapable obligation to carry out the Treaty of 1915 and the Protocol of 1919, and in the Agreement of August 7, 1933, it has made appropriate provision to that end. Except for this obligation, upon which the bondholders are entitled to insist, my Government would be only too glad to discontinue at once its connection with financial administration in Haiti. You of course appreciate, Mr. President, that this is an obligation not to any bank or particular creditor, but to the holders of the bonds who have relied upon the good faith of your Government and my Government to carry out the provisions of existing agreements.

As you know, at the present rate of amortization the bonds will be retired about 1944, and the financial administration under the Agreement, of August 7, 1933, will of course cease at that time. It would, however, be most welcome from the point of view of the United States

⁷³ For correspondence regarding the Seventh International Conference of American States, held at Montevideo, December 3-26, 1933, see vol. iv, pp. 1 ff.

Government if a refunding arrangement could be worked out by Haiti at an earlier date, with agreement of the bondholders, which would result in the withdrawal by this Government from its part in the administration of Haitian finances. Under Article XXVI of the Agreement of August 7 last, Haiti, with the approval of the United States, reserved the right to retire the bonds before their due date provided she could make an arrangement for this purpose satisfactory to the holders of the bonds. The United States Government would be glad to lend its good offices in the matter in any way which would not involve it in any further responsibilities in Haiti.

You may be interested to know that recently I have received letters from organizations in this country on the subject of the Agreement of August 7, 1933. I am enclosing, as I believe you will desire to read it, a copy of a letter written in reply to one such communication by the Acting Secretary of State.⁷⁴ I concur in the views therein set forth.

With the expression of my cordial personal regard and best wishes,
Your sincere friend, FRANKLIN D. ROOSEVELT

838.51/2744 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, November 30, 1933—10 a. m.

[Received December 1—1 a. m.]

128. The Minister for Foreign Affairs has just shown me an open radio telegram from Barau, member of the Haitian delegation to the Pan American Conference, dated Montevideo, 3 o'clock this afternoon, as follows:

"After exchange of notes Secretary of State is instructing American Minister to enter into negotiations definitive withdrawal financial control. Have proposed it [*sic*] National Bank for debt service. (Signed) Barau."

The Minister for Foreign Affairs stated that the President feared that the telegram not being in cipher its contents will become public and that his opponents will claim that Bellegarde's resignation⁷⁵ and the protests of American organizations initiated from here secured this concession. For this reason the President desires to make public immediately his letter to President Roosevelt of November 16th (see my letter of November 20th to Wilson⁷⁶) as well as his instructions to

⁷⁴ For text of the letter of November 27, 1933, to Harry F. Ward, Chairman of the American Civil Liberties Union, see Department of State, *Press Releases*, December 2, 1933, p. 303.

⁷⁵ Dantès Bellegarde, Haitian Minister at Washington until November 1933.

⁷⁶ Not found in Department files.

the Haitian delegation to Montevideo and Barau's telegram as proof that he has not ceased to continue efforts to secure better terms.

I told the Foreign Minister that I was without any information as to such a change in policy and that while I was naturally not in a position to prevent their publishing a letter written by President Vincent if it later developed that Barau had jumped to conclusions or had misunderstood the Secretary, the Haitian Government might find itself in a somewhat embarrassing position.

He left me to speak again to the President but I feel they will nevertheless decide to publish the documents.

I should appreciate prompt instructions.

ARMOUR

838.51/2745 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, December 1, 1933—11 a. m.

[Received 12:34 p. m.]

129. My telegram No. 128, November 30, 10 a. m. I have just come from the President who read me a letter written to him by Barau on board the *American Legion* dated November 22 last. Barau states that on November 12 the Secretary of State asked him to come to his cabin and discussed with him the instructions received by the Haitian delegation as to the position they were to take at the Pan American Conference. Barau replied that he had been instructed to make every effort to secure the abolition of financial control. Mr. Hull asked him to prepare a memorandum for him as to the Haitian Government's position on this point which was given to the Secretary of State on November 15. On November 22, the date of writing, the Secretary of State had again summoned Barau and stated that he had forwarded the memorandum to his Government for its information that "he (Secretary of State) was disposed to give full satisfaction to the Republic of Haiti and that he recognized that this control was unjust".

The President pointed out that the telegram (quoted in my telegram 128) sent from Montevideo 8 days after the writing of the above letter referred to "an exchange of notes" and that he could only assume that the Secretary of State had made some written reply either to Barau's memorandum of November 18 [15] or to some subsequent note embodying a more formal request.

The President confirmed what the Minister for Foreign Affairs told me last night, that the telegram having been received *en clair* he feared that its contents would be made public during the course of the day and for this reason he was virtually forced into publishing not only the telegram but his letter to President Roosevelt as well as his

instructions to the Haitian delegation. I told him that I had communicated with my Government following my talk with Laleau last night and that I hoped to have some word during the course of the day; that if as I informed Laleau there had been a misunderstanding I felt that a very awkward situation to say the least might result through such publication. However, the President seemed to feel that his own position in the country as a result of the agitation carried on by his opponents against the accord had become sufficiently delicate to require immediate action on his part. I feel therefore that the documents in question will be made public by early afternoon.

ARMOUR

838.51/2744 : Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 1, 1933—4 p. m.

83. Your 128, November 30, 10 a. m. On November 22 the Secretary radioed that the Haitian Delegation had presented him with a memorandum which he was forwarding by air mail from Rio de Janeiro November 25.⁷ The memorandum pointed out the relatively small amount of bonds outstanding and stated that "the Haitian Government would be happy if a declaration of renunciation of the financial control exercised by the Government of the United States in Haiti were made before the Conference at Montevideo or at its opening."

The Secretary stated that he had informed the Haitian Delegation that he was forwarding their petition to the Department for consideration. The Secretary added that if the statements made in the Haitian memorandum were true he believed we would be justified in asking the bankers who floated the loans whether the present state of finances would not justify the refunding of the outstanding bonds by means of a new issue which would be made under considerations which would not require any action by the State Department in connection with the payment of interest and amortization.

On November 25 we sent a radio message to the Secretary reading as follows:

"It would certainly be most welcome from our point of view if a refunding arrangement could be worked out with agreement of the bondholders which would result in doing away with our administration of financial control. Of course, existing conditions in the investment markets do not seem very favorable for such an operation at the present time. It seems to us, tentatively, that it would be preferable

⁷ The letter of the Secretary of State, dated November 22, enclosing the memorandum of November 15 handed to the Secretary by the Haitian delegation, was received in the Department of State on December 4; not printed. (838.51/2788)

for the Haitian Government if it so desires, rather than for the United States Government, to approach the bankers who floated the loan (who are also the Fiscal Agents) regarding a refunding operation. Under Article XXVI of the Agreement of August 7 last Haiti, with the approval of the United States, reserved the right to retire the bonds before their due date provided she could make an arrangement for this purpose satisfactory to the holders of the bonds.

After we have received and considered the petition we will communicate further with you."

On November 26 the Secretary radioed:

"Agree with you that it would be preferable for Haitian Government to approach fiscal agents rather than for us to take initiative regarding a funding operation. The phase of this matter which I consider of first importance is, however, that we would welcome an arrangement which would result in withdrawal of action by our Government in financial control.

I would suggest that Armour be informed of this attitude and that he be instructed to so inform the Haitian Government and to tell them we would be ready to accept an arrangement along such other lines if worked out in agreement with the bondholders. I think we should also tell the Haitian Government that we will be glad to lend our good offices in the matter in any way that would not involve our Government in any further responsibilities in Haiti. Please keep me advised."

On November 27 we sent a message to the Secretary as follows:

"President Vincent has sent a letter to President Roosevelt expressing the intention of the Haitian Government to continue to fulfill its obligations but requesting, as in the Haitian memorandum to you, the early withdrawal of American financial administration. In the draft reply which we are submitting to President Roosevelt we are embodying the suggestions made in your telegram under acknowledgment."

It is obvious from the foregoing that Barau's message is misleading. As the Secretary stated in his message to us of November 26, we would of course welcome an arrangement which would result in withdrawal of financial control on our part if it can be worked out by Haiti in agreement with the bondholders, and we should be glad to lend our good offices in the matter in any way that would not involve our Government in any further responsibilities in Haiti. However, pending such an arrangement worked out in agreement with the bondholders, we must of course stand on the basis of existing agreements. We have incorporated these views in the draft we have forwarded to President Roosevelt for his reply to President Vincent.⁷⁸ As soon as we hear from the President we will advise you further.

PHILLIPS

⁷⁸ Letter dated November 29, to President Vincent, p. 767.

838.51/2746 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, December 1, 1933—8 p. m.

[Received 11:25 p. m.]

130. Under headlines "Complete Liberation of the Country" *Haiti-Journal* tonight publishes all documents mentioned my telegram[s] 128 and 129.

I would appreciate information actual situation earliest possible moment.

ARMOUR

838.51/2751 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, December 4, 1933—1 p. m.

[Received 3:48 p. m.]

131. Reference Department's telegram No. 84 of December 1, 6 p. m.⁷⁹ Letter referred to therein did not arrive by the plane which left Miami morning of December 3.

President Vincent showed me this morning the following telegram from Barau, dated Montevideo, December 3, sent in reply to telegraphic request for further details:

"New notes exchanged. Secretary of State is telegraphing Department of State that from that distance he could not settle the Haitian question but if the Haitian Government proposes the replacement of the Fiscal Representative by the National Bank for service of the debt or proposes other measures the Department of State should consider Haitian propositions sympathetically in accordance with present American policy, without losing sight of the obligations of the American Government in the question."

Does the Department propose to release the text of President Roosevelt's reply to President Vincent's letter November 16? If so, I should appreciate being informed when this is done.

ARMOUR

838.51/2746 : Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 4, 1933—3 p. m.

85. Your 130, December 1, 8 p. m.

1. In view of publication of documents in Haiti I gave to the press on December 2 for background purposes the gist of the Secretary's

⁷⁹ Not printed; the letter under reference was President Roosevelt's letter of November 29 to President Vincent, which had been forwarded by air mail to the Minister in Haiti in despatch No. 109, December 2, but was not received and delivered until December 5. (838.51/2744 supp., 2767, 2754)

radio messages (see Department's 83, December 1, 4 p. m.) and of President Roosevelt's reply to President Vincent. I also gave out the text of a translation of President Vincent's letter and of the Department's letter to the American Civil Liberties Union.

2. Please telegraph as soon as you have delivered President Roosevelt's reply to President Vincent, in order that we may make the text public,⁸⁰ if that should seem advisable.

3. For your information the following telegram dated December 2 has been received from the Secretary:

"The Haitian delegation called on me today and spoke particularly of the desire of the Haitian Government that our financial control be withdrawn through the designation by our Government of the National Bank of Haiti in place of the Financial Adviser-Receiver General for the service of the Haitian debt, claiming that such action would be in accord with existing treaties and agreements and contracts. I explained that I did not have the texts of the treaties and documents in the matter, and that it would be necessary for me to study them before making a decision in any such matter, and that furthermore, it would be more appropriate if any suggested methods for the accomplishment of the withdrawal of financial control were to be made by the Haitian Government through the American Minister at Port-au-Prince.

I gathered that the above mentioned substitution will be suggested by the Government at Port-au-Prince.

I told the delegation that I could assure them that any suggested method of effecting the withdrawal of our control would receive the sympathetic consideration of the Department, and that if the Haitian Government proposes as a method of withdrawing American Government participation in financial control in Haiti that the National Bank of Haiti be substituted for the Receiver General and Financial Adviser for the service of the debt, that the Department will give this proposal, or the proposal of any other method which may be suggested, consideration in the light of the present policy of our Government toward withdrawal of financial control—having in mind our Government's obligations in the matter. I stated to the Haitian delegation that being unfamiliar with the contractual obligations of our Government, I could not pass upon the proposal either pro or con."

PHILLIPS

838.51/2748 : Telegram

The Acting Secretary of State to the American Delegation to the Seventh International Conference of American States

WASHINGTON, December 5, 1933—6 p. m.

42. Your No. 20, December 2, 8 p. m.⁸¹ As of possible interest in connection with the proposal of the Haitian delegation for with-

⁸⁰ The text was released to the press on December 5.

⁸¹ See telegram No. 85, December 4, 3 p. m., to the Minister in Haiti, *supra*.

drawal of American control over Haitian finances through the designation of the National Bank of Haiti in place of the Financial Adviser-General Receiver, you are informed that the National City Bank has offered to sell the entire capital stock of the National Bank of Haiti to the Haitian Government at a figure understood to be in the neighborhood of two million dollars.

The Department is not informed as to the attitude of the Haitian Government toward the offer. The Financial Adviser-General Receiver has reported to the Legation that he would regard the acquisition of the Bank as not being in the interest of Haiti's finances.

PHILLIPS

838.51/2757 : Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, December 7, 1933—1 p. m.

[Received 3:50 p. m.]

135. Reference my telegram No. 128, November 30, 10 a. m. quoting telegram from Barau of the same date and my telegram No. 131 of December 4, 1 p. m., quoting another telegram from Barau dated December 3. A local newspaper has now called on the Government to publish the exchange of notes referred to in Barau's telegrams. As no mention of such an exchange has been made in any of the Department's telegrams reporting communications with the Secretary, could I be informed of the facts concerning this reported exchange of notes and if the exchange was made I should greatly appreciate receiving the texts thereof.

The reply of President Roosevelt to President Vincent has been published in the local press. The only editorial comment which has so far appeared has been in the Government press and is merely an attempt to tone down the enthusiasm of *Haiti-Journal* of December 1st (copy forwarded with despatch No. 203 of December 1st⁸²). The press has emphasized the point of view that "the door is open" to further modifications of existing financial control.

ARMOUR

838.51/2757 : Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, December 8, 1933—3 p. m.

88. Your 135, December 7, 1 p. m. The Department's No. 83 of December 1 and No. 85 of December 4 transmitted to you all the information we have received to date.

PHILLIPS

⁸² Not printed.

838.51/2772

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 212

PORT-AU-PRINCE, December 14, 1933.

[Received December 18.]

SIR: With reference to my telegram No. 135 of December 7, 10 [1] p. m. and to the Department's reply thereto No. 81 [88] of December 8, 3 p. m. with reference to "an exchange of notes" with the American delegation mentioned in telegrams of M. Barau, President of the Haitian delegation to the Pan-American Conference, I have the honor to transmit herewith a copy of a document which was handed to me yesterday by the President.

The Department will note that it consists of an "oral statement" which President Vincent assures me was handed to the Haitian delegation by a member of the American delegation on board the SS *American Legion* under date of November 27 last.

While it is true that the document bears the title, "Oral Statement," it seems probable that this document, together with the Haitian memorandum of November 15, 1933, to which it is apparently in reply, constitute the exchange of notes referred to by M. Barau in his telegrams.

A comparison of this statement with the Department's telegram No. 83 of December 1, 4 p. m. shows that it follows in general the suggestions contained in the Secretary's radio message to the Department of November 26 last. I cannot find, however, in the Department's telegram No. 83 any indication of agreement with the Secretary's suggestion that I be instructed to inform the Haitian Government in accordance with the first paragraph of the "oral statement." On the contrary, in the Department's radio message of November 27 sent in reply to the Secretary's recommendations of November 26 it is stated that, "in the draft reply which we are submitting to President Roosevelt we are embodying the suggestions made in your telegram under acknowledgement." I interpret this language as meaning that the Department had decided, rather than to issue instructions to me in accordance with the Secretary's suggestion, to include such recommendations as the Secretary had made in President Roosevelt's reply to President Vincent.

I mention this as the publicity given to the Secretary's statement that he "has requested the Department of State to instruct the American Minister at Port-au-Prince, et cetera," has placed me in a somewhat awkward position as I have been forced to explain to the Haitian Government that no such instructions have been received. This has, apparently, given rise to an impression that Washington and the delegation are not in entire agreement, although I have explained

the matter as I understand it, namely that the Department feels that the President's reply to President Vincent, containing the Secretary's suggestions, obviates the need of any further instructions to me.

Without in any way wishing to criticise the action of our delegation or of any member of it, I must confess that I cannot see that any useful purpose was served in informing the Haitian delegation of what the Secretary of State had requested the Department of State to do. If the "oral statement" was communicated, as it presumably was, prior to the receipt of the Department's message to the Secretary of State of November 27, then it would seem that, upon receipt of the latter message, a further "oral statement" should have been handed the Haitian delegation explaining that instead of having the Legation at Port-au-Prince instructed to make the requested communication to the Haitian Government this matter was being dealt with in the President's reply to President Vincent. It may well be that such a supplementary "oral statement" was later made. In this case I hope that the Department will be good enough to communicate it to me as soon as it is received from our delegation at Montevideo.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

Oral Statement Handed to the Haitian Delegation to the Seventh International Conference of American States by a Member of the American Delegation

After consideration of the memorandum of the Haitian Delegation dated November 15, 1933, in which the Haitian Delegation requested that the American governmental participation in the control of Haitian finances be withdrawn, the Secretary of State has decided that the American Government would agree to and would welcome an arrangement which would result in withdrawal of American governmental action in financial control in Haiti.

The Secretary of State has requested the Department of State to instruct the American Minister at Port-au-Prince to so inform the Haitian Government and to tell the Haitian Government that the American Government would be ready to accept an arrangement along such lines if worked out in agreement with the present bondholders. It would be preferable for the Haitian Government to approach the fiscal agents in regard to putting such a plan in effect rather than for the American Government to take the initiative to that end.

The Secretary of State has also requested that the Haitian Government be informed that the American Government will be glad to lend its good offices in the matter in any way that will not involve the American Government in any further responsibilities in Haiti.

ON BOARD SS "AMERICAN LEGION," November 27, 1933.

838.51/2772

The Acting Secretary of State to the Minister in Haiti (Armour)

No. 122

WASHINGTON, January 9, 1934.

SIR: The Department has received your despatch No. 212 of December 14, 1933, relating to the overtures made to our Delegation by the Haitian Delegation to the Seventh International Conference of American States to abolish the financial control envisaged in the accord of August 7, 1933.

Although it was evident from the letter of President Vincent to the President dated November 16, 1933, mentioned in your telegram No. 126 of November 21,⁸³ copy of which was transmitted to you with the Department's instruction No. 109 of December 2, 1933,⁸⁴ that the Haitian Government desired to reopen the question, the Department had no intimation that an effort would be made in this sense by the Haitian Delegation to the Seventh Pan American Conference until the receipt of the Secretary's telegram of November 22, 1933, of which you were informed in the Department's telegram No. 83 of December 1, 1933.

It is to be noted that in none of the communications from the Secretary set forth in the Department's No. 83 of December 1, No. 85 of December 4, and instruction No. 119 of December 29,⁸⁵ was any mention made of an exchange of notes between the Secretary and the Haitian Delegation. It would therefore appear, as you suggest, that the "Oral Statement" enclosed with your despatch under acknowledgment was referred to as a note by M. Barau in his telegrams to the Haitian Government.

With respect to the suggestion contained in the Secretary's telegram of November 26, as quoted in the Department's No. 83 of December 1 and referred to in the first paragraph of the "Oral Statement", that you be instructed to inform the Haitian Government of the Secretary's recommendations in the matter, you are informed that at the time the Secretary's telegram of November 26th was received, the reply of President Roosevelt to President Vincent had not been completed and it was therefore decided to incorporate in that letter the above-mentioned recommendations of the Secretary, instead of sending them through you. This was accordingly done, as set forth in the last paragraph of the Department's No. 83 of December 1, which you interpreted correctly. The Department desires to commend you for the tactful and correct manner in which you interpreted the Department's telegraphic instructions in the premises.

⁸³ Telegram not printed.

⁸⁴ Instruction No. 109 not printed.

⁸⁵ Instruction No. 119 not printed; it enclosed a copy of the memorandum of November 15 from the Haitian delegation.

Should you so desire, you may take the first appropriate opportunity to explain to President Vincent the reason why the Secretary's suggestions were not sent through you but were instead embodied in President Roosevelt's letter to President Vincent.

Upon the return of the American Delegation the Department will furnish you with any further information available.

Very truly yours,

For the Acting Secretary of State:
SUMNER WELLES

EXCHANGE OF NOTES, OCTOBER 31, 1933, WITH RESPECT TO THE HAITIAN BUDGET AND ACCOUNTING LAW OF JULY 4, 1933

838.51/2625 : Telegram

The Chargé in Haiti (Heath) to the Secretary of State

PORT-AU-PRINCE, April 8, 1933—1 p. m.
[Received 2 p. m.]

40. The Haitian Minister of Finance intends to re-submit to the Legislature the permanent finance law drafted by the Financial Adviser and transmitted to the Department in the Legation's despatch No. 483 of August 29, 1932.⁸⁶ The Minister, however, proposes to omit the special article 36 which confirms the powers of the Financial Adviser now exercised by virtue of the Treaty of 1915⁸⁷ and existing accords until the "liquidation" of those instruments. He says that it would be impossible to get the Legislature to vote this article but that the Government will confirm these powers in a note to the Legation employing the same language as that of the article in question.

I recommend that the Financial Adviser be authorized to approve this law upon the condition that the Haitian Government will confirm in writing the powers mentioned in article 36.

Please instruct by cable since the budget, of which the finance law forms a part, is to be submitted to the Legislature in accordance with the constitution early next week.

HEATH

838.51/2629 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, April 12, 1933—noon.
[Received 2:15 p. m.]

45. Reference Legation's telegram No. 40, April 8, 1 p. m., could the Department telegraph its decision concerning the confirmation

⁸⁶ Not printed.

⁸⁷ *Foreign Relations*, 1916, p. 328.

of the Financial Adviser's powers through exchange of notes as early as possible as the budget must be deposited within 48 hours and the Financial Adviser cannot give his accord until a decision is reached on this point.

ARMOUR

838.51/2625 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, April 13, 1933—1 p. m.

26. Your No. 40, April 8, 1 p. m. You are authorized in your discretion to inform the Financial Adviser that the Department will not object to the omission of Article 36 from the text of the permanent finance law, provided the Haitian Government in a formal exchange of notes, fully confirms the powers of the Financial Adviser as set forth in Article 36 of the draft finance law.

HULL

838.51/2711 : Telegram

The Chargé in Haiti (Drew) to the Secretary of State

PORT-AU-PRINCE, September 28, 1933—noon.

[Received 9:20 p. m.]

106. Article 17, paragraph I, of the Budget and Public Accounting Law of July 4, 1933, which was published in *Le Moniteur* No. 68, dated August 24, 1933, provides that restitution of customs duties shall be made by the customs service "after authorization". A similar provision in the Budgetary Law for the fiscal year 1931 and 32, which would have limited the authority of the Receiver General to correct on his own authority any errors occurring in the application of the customs laws, was adjusted through the provisions of paragraph D of the Legation's note of November 7, 1931, copies of which were transmitted with Despatch No. 261 of November 18, 1931.⁸⁸ The provisions of the exchange of notes were made applicable to the prorogued Finance Law for the fiscal year 1932 and 33 by an exchange of letters between the Minister of Finance and the Financial Adviser. Pixley⁸⁹ recommends that we propose an exchange of notes with the Haitian Government following substantially the wording of paragraph D of our note November 7, 1931, in order to permit his office to make necessary restitutions between now and January.

It is also suggested by Pixley that it should be provided in the same exchange of notes that "it is understood that no omissions in the Budget

⁸⁸ *Foreign Relations*, 1931, vol. II, p. 538.

⁸⁹ Rex A. Pixley, Deputy Financial Adviser-General Receiver of the Haitian Government.

and Public Accounting Law of July 4th, 1933, will be considered as affecting in any way the functions and attributions of the Financial Adviser-General Receiver as defined by the Treaty of September 16, 1915, and the Accords relative thereto".

I agree with Pixley that it is necessary to reach an agreement with the Haitian Government on these points at the earliest possible moment.

It is requested that the Department authorize me by telegraph to propose to the Minister for Foreign Affairs an exchange of notes as stated above.

DREW

838.51/2711 : Telegram

The Secretary of State to the Chargé in Haiti (Drew)

WASHINGTON, October 4, 1933—6 p. m.

72. Your 106, September 28, noon. You may propose to the Haitian Government an exchange of notes following substantially the wording of paragraph D of the Legation's note of November 7, 1931, with respect to provisions of Article 17, Paragraph 1, of the Budget and Public Accounting Law of July 4, 1933. Before the exchange of notes is consummated, please submit the text by telegraph to the Department for its approval.

As at present advised, the Department sees no apparent reason for including in the exchange of notes the quotation regarding omissions in the law, which may affect the functions of the Financial Adviser. Obviously, the established practice of the Financial Adviser's office, under the Treaty of 1915, and related accords, remains in effect until modified by the Accord of August 7,⁹⁰ which does not become effective until January 1, 1934. No instance of the effect of omissions in the law has as yet been brought to the Department's attention. Unless such instances have in fact occurred, with resultant prejudice to the operation of the Financial Adviser's Office, do you not think it preferable to refrain from raising the question?

HULL

838.51/2715 : Telegram

The Chargé in Haiti (Drew) to the Secretary of State

PORT-AU-PRINCE, October 5, 1933—8 p. m.

[Received October 6—3:50 a. m.]

108. Reference Legation's telegrams numbers 40, April 8, 1 p. m.; 45, April 12, noon; and 106, September 28, noon; and Department's

⁹⁰ *Ante*, p. 755.

telegrams numbers 26, April 13, 1 p. m.; and October 4, 6 p. m., second paragraph.

The effect of the removal of special article number 36 from the finance law of July 4, 1933, was largely remedied in the text as finally promulgated, with the principal exception that article 5 of the law does not provide that extraordinary or supplementary credits shall receive the approval of the Financial Adviser. It is anticipated that the greater portion of the surplus accumulated from last year's revenue will be appropriated between now and the first of January.

Inasmuch as it was agreed in writing between the Minister of Finance and the Financial Adviser that the latter's approval to the law referred to was only given subject to the condition that the effect of the omission of the special article would be remedied by an exchange of notes between the Legation and the Minister of Foreign Affairs and as the Minister of Finance so informed the Minister of Foreign Affairs it is considered highly desirable to include in the proposed exchange of notes a provision along the lines of paragraph 2 of my telegram 106 of September 28, noon. It is possible that failure to include this provision in the proposed exchange of notes might be construed by the Government as renouncing the authority now exercised by the Financial Adviser to control extraordinary and supplementary appropriations between now and January 2d. Although Pixley informs me that most of the other omissions do not now appear to be very serious the omission of any reference to his authority over such appropriations is considered to be sufficiently important to necessitate inclusion of the suggested provision in the exchange of notes.

Please instruct by telegraph.

DREW

838.51/2715 : Telegram

The Secretary of State to the Chargé in Haiti (Drew)

WASHINGTON, October 9, 1933—3 p. m.

73. Your 108, October 5, 8 p. m. You are authorized to include in the proposed exchange of notes a provision along the lines of paragraph 2 of your telegram No. 106 of September 28, noon.

Was the exchange of notes authorized in the Department's telegram No. 26 of April 3 [13], 1 p. m. effected?

HULL

838.51/2717: Telegram

The Chargé in Haiti (Drew) to the Secretary of State

PORT-AU-PRINCE, October 10, 1933—2 p. m.

[Received 3:10 p. m.]

109. Department's telegram No. 73, October 9, 3 p. m., second sentence. Exchange of notes was not effected.

DREW

838.51/2722

The Minister in Haiti (Armour) to the Secretary of State

No. 161

PORT-AU-PRINCE, October 20, 1933.

[Received October 23.]

SIR: I have the honor to refer to the Legation's telegrams No. 106 of September 28, 12 N, and 108 of October 5, 8 p. m. and the Department's telegrams No. 72 of October 4, 6 p. m. and No. 73 of October 9, 3 p. m., all concerning the proposed exchange of notes with the Haitian Government to correct certain omissions in the Finance Law of July 4, 1933.

There is enclosed herewith a copy of the draft note which the Legation submitted to the Minister for Foreign Affairs on October 10, 1933. Due to the departure of the Minister for Foreign Affairs and other members of the Government for Cape Haitien shortly after this date, no reply has yet been received from the Haitian Government. However, it is expected that a reply will be received within the next few days, following which I shall promptly telegraph the Department any important changes which may be proposed in the text of the Legation's draft note forwarded herewith. It is desired to expedite the final signature of the exchange of notes as much as possible in view of the fact that the acting Financial Adviser has not considered it advisable to make any refunds for overpayment of customs duties until the question of his authority under the Finance Law is finally settled.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

*Draft Note for the Haitian Secretary of State for Foreign Affairs,
October 10, 1933*

EXCELLENCY: With reference to the Law on the Budget and Public Accounting dated July 4, 1933, which was published in *Le Moniteur* No. 68 dated August 24, 1933, I have the honor to inform Your Ex-

cellency that it is the understanding of my Government that paragraph 1 of article 17 thereof will not be interpreted in such a way as to alter the present practice and procedure regarding the method of effecting restitutions and regarding reports to the Minister of Finance.

It is also the understanding of my Government that no omissions in the Budget and Public Accounting Law of July 4, 1933, will be considered as affecting in any way the functions and attributions of the Financial Adviser-General Receiver as defined by the Treaty of September 16, 1915, and the Accords relative thereto.

I should be glad to receive Your Excellency's assurance that these understandings are in accordance with the views of the Haitian Government.

Accept, Excellency, the renewed assurance of my highest consideration.

838.51/2724 : Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, October 27, 1933—2 p. m.

[Received 3:12 p. m.]

114. Reference Legation's No. 161 of October 20, forwarding draft of proposed note modifying law on the budget and public accounting of July 4, 1933.

Minister of Foreign Affairs accepts our draft. Please cable authorization to effect exchange of notes.⁹¹

ARMOUR

838.51/2732

The Minister in Haiti (Armour) to the Secretary of State

No. 181

PORT-AU-PRINCE, November 4, 1933.

[Received November 11.]

SIR: I have the honor to forward herewith the original note dated October 31, 1933, from the Haitian Minister for Foreign Affairs, concerning the Budget and Public Accounting Law of July 4, 1933. The Legation on that date addressed a note to the Haitian Foreign Office in conformity with the text of the draft note which was forwarded to the Department with my despatch No. 161 of October 30 [20], 1933.

Respectfully yours,

NORMAN ARMOUR

⁹¹ Telegram No. 114, October 30, 1933, 5 p. m., to the Minister in Haiti, granted the authorization.

[Enclosure—Translation ⁸²]*The Haitian Secretary of State for Foreign Affairs (Laleau) to the American Minister (Armour)*

PORT-AU-PRINCE, 31 October, 1933.

MR. MINISTER: In reply to your note of 31 October, 1933, I have the honor to inform you that I am authorized to state that the Haitian Government will not interpret the provisions of paragraph 1, article 17, of the law of 4 July, 1933, for budget and public accounting, in such a way as to alter the present practice and procedure regarding the methods effecting restitutions which is the subject of this article. Also it is the understanding of my Government that no omission in the aforesaid law will be considered as affecting the functions and attributions of the Financial Adviser-General Receiver, as defined by the treaty of 16 September, 1915, and the accords relative thereto.

I take [etc.]

LEÓN LALEAU

AGREEMENTS BETWEEN THE UNITED STATES AND HAITI, SIGNED JULY 19, 1933, AND OCTOBER 27, 1933, AMENDING THE GARDE AGREEMENT OF AUGUST 24, 1916 ⁸³

838.105/460

The Chargé in Haiti (Heath) to the Acting Secretary of State

No. 97

PORT-AU-PRINCE, July 19, 1933.

[Received July 25.]

SIR: With reference to the Department's telegraphic instruction number 47, July 15, 1 p. m.,⁸⁴ approving and authorizing the Legation to sign the amendment to the Garde Agreement to abolish the grade of aspirant officer and to increase the number of second lieutenants by twenty-two, I have the honor to transmit herewith the original in English and French of this Agreement signed today.⁸⁵

Respectfully yours,

DONALD R. HEATH

[Enclosure]

Agreement Signed July 19, 1933, Amending the Garde Agreement Signed August 24, 1916, and Amended on March 24, 1920, February 28, 1925, and June 9, 1932

The undersigned duly authorized by their respective governments have this day agreed that the Garde Agreement signed on August 24,

⁸² Translation supplied by the editors.⁸³ For text of the Garde Agreement, see *Foreign Relations*, 1916, p. 334.⁸⁴ Not printed.⁸⁵ French text not printed.

1916, and amended on March 24, 1920, February 28, 1925 and June 9, 1932, shall be and hereby is amended as follows:

ARTICLE 1. The grade of aspirant officer is hereby abolished and the number of second lieutenants now authorized is hereby increased by twenty-two (22).

Signed at Port-au-Prince in duplicate in the English and French languages this nineteenth day of July, 1933.

A. BLANCHET
DONALD R. HEATH

838.105/466

The Chargé in Haiti (Heath) to the Secretary of State

No. 131

PORT-AU-PRINCE, September 20, 1933.
[Received September 23.]

SIR: I have the honor to submit for the Department's consideration the enclosed copies, in French and in English, of the draft of an accord,⁹⁶ amending the Garde Agreement of August 24, 1916, which provides for the incorporation of the Military Household of the President of the Republic in the Garde d'Haiti. The proposed amendment, which is desired both by the Commandant of the Garde and by the Haitian Government, would prevent the assignment of any but Garde officers to the Military Household and would permit of the assignment to the Military Household of officers of higher rank in the Garde than is possible under the current regulations, which stipulate that the Commandant of the Military Household must be a captain and that his aides must be lieutenants.

If the Department perceives no objection to this amendment, I will sign the enclosed Accord. As it is desired by the Haitian Government that this amendment shall be effective at the earliest possible date, I suggest that the Department's instructions in the premises be transmitted by telegraph.

Respectfully yours,

DONALD R. HEATH

838.105/466: Telegram

The Secretary of State to the Chargé in Haiti (Drew)

WASHINGTON, September 29, 1933—1 p. m.

71. Your despatch No. 131, September 20, 1933. You are authorized to sign the amendment to the Garde Agreement as submitted in the above-mentioned despatch.

HULL

⁹⁶ Not printed.

838.105/469

The Chargé in Haiti (Drew) to the Secretary of State

No. 156

PORT-AU-PRINCE, October 12, 1933.

[Received October 17.]

SIR: I have the honor to refer to the Legation's despatch No. 131, of September 20, forwarding the proposed text in French and English of an amendment to the Gendarmerie Agreement of August 24, 1916, providing for the incorporation of the Military Household of the President in the Garde d'Haiti.

In accordance with the authorization contained in the Department's telegram No. 71 of September 29, 1 p. m., a draft of the amendment was submitted to M. Laleau for his consideration. M. Laleau has now submitted a counter-proposal containing certain minor modifications, principally one increasing the number of aides authorized under the amendment from seven to a total of nine. Copies and translations of the Haitian Government's draft are enclosed.⁹⁷ I have submitted the revised text to the Commandant of the Garde and to the Acting Financial Adviser who have both signified their approval thereof. M. Laleau proposes that the amendment to the Gendarmerie Agreement be effected by an exchange of notes rather than by a formal accord as has been the practice in previous amendments to the Gendarmerie Agreement. He stated that in view of the complete Haitianization of the Garde at an early date, he did not consider it necessary to sign an accord. I have informed M. Laleau that the opinion of the Department of State as to the legality of amending the agreement by an exchange of notes would have to be taken. The Department's instructions on this point are respectfully requested.

The text of the note which it is proposed to address to the Foreign Office, if the Department approves of that course, is enclosed herewith,⁹⁷

Respectfully yours,

GERALD A. DREW

838.105/469 : Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, October 19, 1933—5 p. m.

76. Your despatch No. 156 of October 12, 1933. You are authorized to amend the Garde Agreement by exchange of notes. The text of the Haitian note however should include the phrase "not to ex-

⁹⁷ Not printed.

ceed" before the word "nine" in paragraph numbered 1, if the same phrase is included in the text of the Legation's note.

HULL

838.105/471

The Minister in Haiti (Armour) to the Secretary of State

No. 175

PORT-AU-PRINCE, October 31, 1933.

[Received November 7.]

SIR: With reference to the Legation's despatch No. 156 of October 12, forwarding text of a proposed exchange of notes amending the Gendarmerie Agreement of August 24, 1916, to provide for the incorporation of the Military Household of the President in the Garde d'Haiti, I now have the honor to forward the original signed note from the Haitian Foreign Office dated October 27, 1933, and copies thereof.

Copies of the Legation's note of the same date, No. 44, which was addressed to the Foreign Office, are also enclosed.

It will be observed that the first word of paragraph 3 of the Legation's note has been changed from "after" to "from". It will also be noted that the French text as forwarded to the Department with the despatch referred to has been modified to include the word "jusqu'à" before the words "neuf officiers".

Respectfully yours,

NORMAN ARMOUR

[Enclosure 1]

The American Minister (Armour) to the Haitian Secretary of State for Foreign Affairs (Laleau)

No. 44

PORT-AU-PRINCE, October 27, 1933.

EXCELLENCY: I have the honor to inform you that I have been authorized by my Government to address to Your Excellency the following communication:

With reservation of any legal measure which may be required by the situation, the Government of the United States is in accord with the Government of the Republic of Haiti on the following points concerning officers of the Garde forming part of the Military Household of the President of the Republic:

From October 1933, the Commandant of the Garde may assign not to exceed nine commissioned officers of the Garde to positions in the Military Household of the President of the Republic. These officers shall remain incorporated in the Garde and shall retain their rank and salary and if Second Lieutenants, their allowances for quarters shall be fixed at Gdes. 100 per month.

As long as an appropriation for representation expenses of the Military Household shall be made this appropriation, through the intermediary of the quartermaster of the Garde d'Haiti, shall be set apart monthly for the extraordinary expenses of the officers belonging thereto.

Accept [etc.]

NORMAN ARMOUR

[Enclosure 2—Translation ⁹⁹]

The Haitian Secretary of State for Foreign Affairs (Laleau) to the American Minister (Armour)

PORT-AU-PRINCE, 27 October, 1933.

MR. MINISTER: With reference to Your Excellency's note of October 21 [27], 1933, I have the honor to inform you that I have been authorized by my Government to address to you the following communication:

With reservation of any legal measure which may be required by the situation, the Haitian Government is in accord with the Government of the United States on the following points concerning the officers of the Garde belonging to the Military Household of the President of the Republic:

1. The Commandant of the Garde from October 1933 may assign not to exceed nine commissioned officers of the Garde to positions in the Military Household of the President of the Republic. These officers shall remain incorporated in the Garde and shall retain their rank and their pay and, if second lieutenants, their allowance for quarters shall be fixed at one hundred gourdes per month.

2. As long as an appropriation shall be made for representation expenses of the Military Household, this credit, through the intermediary of the Quartermaster of the Garde d'Haiti, shall be set apart monthly for the extraordinary expenses of the officers belonging thereto.

Please accept [etc.]

LEÓN LALEAU

WAIVING OF IMMUNITY FOR AMERICAN TREATY OFFICIAL FROM JURISDICTION OF HAITIAN COURTS IN CASE OF FRAUD IN THE COLLECTION OF CUSTOMS

*Press Release Issued by the Department of State, April 13, 1933*¹

David P. Johnson, American Collector of Customs at Port-au-Prince, has confessed that he has been guilty of defrauding the Hai-

⁹⁹ Translation supplied by the editors.

¹ Reprinted from Department of State, *Press Releases*, April 15, 1933, p. 247.

tian customs and accepting bribes from Zrike Bros., importers and merchants of Port-au-Prince. The fraud consisted in underweighing the bales of merchandise consigned to the importers, duties being payable on the weight of each package. Suspicion was aroused several months ago that these frauds were being committed, as a result of which a thorough investigation was instituted by the General Receiver of Customs, Mr. de la Rue. This investigation indicated that Johnson was implicated in the frauds.

As a result of Johnson's confession, the Department of State on April 11 instructed the Legation² to inform the Haitian Government that it was willing to waive Johnson's immunity as a treaty official and surrender him to the jurisdiction of the Haitian courts. Johnson has accordingly been surrendered to their jurisdiction.

338.1121 Zrike Bros. and Johnson/9: Telegram

The Chargé in Haiti (Heath) to the Secretary of State

PORT-AU-PRINCE, April 7, 1933—9 p. m.
[Received 10:35 p. m.]

39. Reference Legation's telegram No. 36 of April 5, noon.³ Senator Hudicourt today introduced a resolution referring to recent customs frauds which he estimated to total more than \$200,000 and called on the Government to "seize the occasion of these depredations" to insist "through diplomatic channels" upon the return of the administration of Haitian affairs and "especially the finances" to the Haitian people.

Hudicourt supported by a small gallery of about 50 people asked for an immediate vote on the resolution but the Senate wanted to refer it to committee.

HEATH

338.1121 Zrike Bros. and Johnson/13: Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, April 11, 1933—11 a. m.

24. In view of development reported your 43, April 10, 7 p. m.,³ you may inform Haitian Government that upon receipt of following assurances Government United States is willing to waive Johnson's immunity as treaty official and surrender him to Haitian jurisdiction for action upon pending charges: (1) that proceedings against Zrike Brothers will be carried on expeditiously and that Johnson will not be

² See telegram No. 24, below.

³ Not printed.

placed on trial until completion such proceedings; (2) that if Zrike Brothers are acquitted charges against Johnson will be quashed, (3) that if Johnson placed on trial public prosecutor will not introduce political considerations and Haitian Government will see that case is tried on its merits alone, and (4) that if both Zrike Brothers and Johnson are found guilty sentence imposed upon Johnson will not be disproportionately heavy and that if the court shall impose such a sentence the Government by executive act will make appropriate reduction thereof.

The Department leaves it to you to determine whether assurances given are reasonably sufficient to ensure a fair trial and sentence.

HULL

338.1121 Zrike Bros. and Johnson/15: Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, April 12, 1933—8 a. m.

[Received 10 a. m.]

44. The President and the Minister for Foreign Affairs have both given me categorical assurances on points 3 and 4 of your telegram 24, April 11, 11 a. m. In accordance with Haitian law trial will be held before a judge without jury. It will be tried on its merits alone and should sentence be disproportionally heavy the President will at once exercise his constitutional prerogative to make appropriate reduction. Under points 1 and 2, while they promise that proceedings will be carried on expeditiously they both state (and I have confirmed this in other quarters) that under Haitian procedure it will be juridically impossible to separate the proceedings and place Z. Brothers on trial before Johnson in view of the fact that all parties are charged with the same general offense, namely, having conspired together to defraud the Government and under Haitian law the case is a unity and must be dealt with in one proceeding. Even the fact that Johnson may plead guilty, as he has indicated he intends to do it would not entitle him to a separate trial.

In view of the above and since I am satisfied from the earnest assurances given me by the President and the Minister for Foreign Affairs that Johnson will secure fair trial I plan to surrender him to Haitian jurisdiction today unless I am instructed to the contrary by the Department. In conclusion I may state that Johnson continues in his desire to make full restitution, to assist in bringing the guilty parties to justice and to surrender himself voluntarily and accept whatever punishment may be forthcoming. With his consent, his confession of guilt has been communicated to the press and the Minister for Foreign Affairs.

ARMOUR

338.1121 Zrike Bros. and Johnson/24: Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, April 21, 1933—11 a. m.
[Received 1:55 p. m.]

47. Reference Legation's telegram No. 39, April 7, 9 p. m.; despatch No. 11 of April 7.⁵ The Hudicourt resolution referred to therein was adopted yesterday by a [vote] of 18 [12?] to 7 in the Senate after a heated discussion which lasted several hours. The debate in support of the resolution was led by Senator Pradel in the course of which he severely criticised the American administration in Haiti. A number of the Senators took the position that they did not favor an immediate vote but swung over to vote with the majority. It is not known whether the Government attempted to exercise any pressure to prevent passage of this resolution.

ARMOUR

338.1121 Zrike Bros. and Johnson/35: Telegram

The Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, April 24, 1933—5 p. m.

30. Department advised by American creditors of Zrike Brothers that their information indicates De la Rue has given impression to accused's attorney that he would favor settlement with accused for \$40,000 provided Haitian authorities agreed. For confidential information Department, telegraph whether there is any basis for this report.

American creditors who naturally fear loss of amount represented by their credits desire Department to direct informal representations looking to compromise settlement. The Department doubts the expediency of permitting De la Rue to take an active part in the negotiations for such settlement in view of the possible political effect, and requests an expression of your views on this subject.

HULL

338.1121 Zrike Bros. and Johnson/36: Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, April 25, 1933—3 p. m.
[Received 9:05 p. m.]

49. Reference Department's telegram No. 30, April 24, 5 p. m., De la Rue informs me that he has never given the impression to accused's

⁵ Despatch No. 11 not printed.

attorney that he would participate in any settlement negotiation and specifically referred the attorney to the Haitian Government for any such discussion. He takes the position, in which I concur, that it would be most improper for him to play any part in negotiations looking to a compromise settlement.

ARMOUR

338.1121 Zrike Bros. and Johnson/70

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 87

PORT-AU-PRINCE, June 26, 1933.

[Received June 29.]

SIR: I have the honor to inform the Department that on June 14 last, the Zrike Brothers were permitted to leave prison with provisional liberty after having agreed to pay the Government \$100,000 in settlement of the civil claim, that is, for the actual losses to the Government brought about through under-payment of customs duties.

On June 12, the Financial Adviser-General Receiver wrote the Legation that the Minister of Finance had notified him that such a settlement was being discussed. After talking the matter over with the Legation, Mr. de la Rue wrote the Minister for Finance stating that he could take no part in such negotiations nor could he give advice on the question as to whether or not the Government should settle out of court, so to speak. This action was considered advisable in view of the possible repercussions of a political nature later. It was also felt to be in accordance with the spirit of the Department's telegraphic instruction No. 30 of April 24, 5 p. m. A copy of Mr. de la Rue's letter to the Minister of Finance is enclosed herewith.⁶ The settlement as finally effected calls for a payment of \$50,000 in cash, \$30,000 in twenty months at the rate of \$1,500 a month, and \$20,000 in forty months at the rate of \$500 a month. (It is not clear whether the forty months date from the expiration of the twenty-month period or are to run concurrently therewith.) Mr. de la Rue informs me that the \$50,000 cash has already been paid in to the Banque Nationale to the credit of the General Receiver.

Just before the conclusion of the settlement the Foreign Minister called me in and asked me what I thought of it. I was careful to explain to him that our Government would prefer not to be brought into the settlement; that upon the completion by the office of the

⁶ Not printed.

Financial Adviser-General Receiver of their reports and the furnishing by them of all data, etc., we considered that their part also had been completed. In other words, we felt that all details connected with the trial and judgment rested with the Haitian courts and government, subject to the assurances requested by the American Government and given by the Haitian Government prior to Johnson's surrender. M. Blanchet assured me that he understood our position and merely wished to put me "au courant" of the progress of events. He explained that this settlement for \$100,000 would not affect the prosecution of the penal side of the case.

The Financial Adviser-General Receiver states that he has been given to understand that while it is the intention of the Government to bring the Zrike Brothers to trial and sentence them, their sentences will be immediately commuted by the Executive. The Minister for Finance stated that similar action was planned in the case of Mr. David Johnson, formerly American Collector of Customs at Port au Prince, who has confessed his guilt in the transactions. However, the Government feels that before Johnson can be released on bail he should have made full restitution to the Haitian Government of the bribes he received from Zrike Brothers. The Haitian Government, accordingly, asked Johnson to sign a document authorizing his bank in the United States to furnish a full statement of his account for the past three years so that the prosecutor could convince himself that Johnson's statements of the amount of the bribes he had received might be confirmed. Upon advice of his counsel, Johnson has so far refused to authorize the bank to furnish this information. I understand that the Haitian Government, through its Legation at Washington, is asking the State Department to transmit an official request to the State of New York that information concerning Johnson's bank account be furnished for the use of the Haitian courts.⁷

It is to be noted that Johnson is understood to have said that he received less than \$10,000 from the Zrike Brothers. Recently the Zrike Brothers admitted to the Haitian Government that they had given Johnson a total of \$22,000. Later, it is reported, they amended this statement to claim that they had paid him more than \$30,000 in bribes.

Further developments in this case will be promptly reported to the Department.

Respectfully yours,

NORMAN ARMOUR

⁷ Haitian communication not printed. The Department suggested to the Haitian Minister that the matter should be handled in New York by the Haitian Consul General there. (338.1121 Zrike Bros. and Johnson/63, 66)

338.1121 Zrike Bros. and Johnson/73: Telegram

The Acting Secretary of State to the Minister in Haiti (Armour)

WASHINGTON, July 25, 1933—2 p. m.

51. Department is in receipt from Senator Walsh of complaint by Johnson that he has been discriminated against in favor of Zrike Brothers through the latter's release from imprisonment while Johnson is still confined.

Conditions outlined in Department's 24, April 11, 1[11] a. m., for its waiver of Johnson's immunity were designed to insure that Johnson should not be given worse treatment than Zrike Brothers and therefore it is considered that he should be released upon reasonable bail, which release appears to be practicable under Haitian law as appears from your despatch 87, June 26.

You will so represent matter to appropriate authorities.

Johnson also says that two Haitians who were implicated with the Zrikes were released without any payment. If your information confirms this statement, you may use this as a further argument for Johnson's release.

It is desired that you earnestly endeavor obtain Johnson's release on bail or with provisional liberty, the latter upon condition that he makes reasonable settlement.

PHILLIPS

338.1121 Zrike Bros. and Johnson/75: Telegram

The Minister in Haiti (Armour) to the Acting Secretary of State

PORT-AU-PRINCE, July 26, 1933—4 p. m.

[Received 7:15 p. m.]

81. Department's telegram No. 51, July 25, 2 p. m. The Haitian Government today accepted \$10,400 as full restitution by Johnson for bribes received from Zrike Brothers and released him on his own cognizance. It is understood that both Johnson and Zrike Brothers are still liable to prosecution on criminal charges. It is not known whether the Government intends to institute such prosecution.

ARMOUR

338.1121 Zrike Bros. and Johnson/80

The Minister in Haiti (Armour) to the Secretary of State

No. 172

PORT-AU-PRINCE, October 30, 1933.

[Received November 3.]

SIR: I have the honor to refer to the Legation's despatch No. 115 of October [August] 31,^s reporting the departure of Mr. D. P. Johnson from Haiti.

^s Not printed.

As stated in that despatch, the general opinion prevailed that Mr. Johnson had left Haiti with the tacit consent if not the definite approval of the Haitian Government. This opinion, which was shared by the Legation at the time, was subsequently supported by statements which were made in private conversations by members of the Government to Mr. Pixley⁹ and also to the Legation.

I am informed that M. Blanchet, formerly Minister for Foreign Affairs, in a conversation with Mr. Donald R. Heath on about September 2nd, mentioned that he had noticed from the press that Mr. Johnson had left Haiti. M. Blanchet, however, did not indicate in this conversation that the Haitian Government was interested in the fact of his departure.

When I first saw President Vincent after his return from Cape Haitien on October 26th he raised this question and expressed his displeasure that Mr. Johnson had left before Haitian justice had been satisfied. I replied to the President, as I also had occasion later to state to M. Laleau, Minister for Foreign Affairs, that once Johnson had been delivered to the Haitian authorities the American Government and the Legation had no further connection with the matter.

On October 28 I received a note from the Haitian Government on this subject, copies and translation of which are enclosed herewith.¹⁰ Although there has been no comment on the Johnson case in the press since his departure and so far as I was aware the question had apparently been forgotten, the impression conveyed by the Haitian Government's note is that it desires to go on record concerning his departure in such a manner as to rid itself of any responsibility therefor. In doing so, however, they have attempted to throw the onus on the American Government. I have discussed this note with M. Laleau and asked him whether the Haitian Government intended thereby to request Johnson's extradition but received no satisfactory explanation for the note.

It is my opinion that particularly in view of the action of the Department in waiving the immunity of this treaty official, the first time that such action had been taken in the history of the American intervention in Haiti, it is inadvisable that we should permit this note, with its implication that we are in any way responsible for Johnson's departure, to remain unanswered. I have therefore drafted a reply to the Haitian Government which is submitted for the Department's approval.¹⁰

One other method of dealing with the question which occurs to me is to request the Haitian Government to withdraw its note, although of the two courses of action perhaps the former would be preferable.

⁹ Rex A. Pixley, Deputy Financial Adviser-General Receiver of the Haitian Government.

¹⁰ Not printed.

In connection with Mr. Johnson's release from prison I am enclosing a copy and translation of the text of the court order ordering his release.¹¹ It will be noted that no qualification is attached to his release. The Commandant of the Garde reports that he was not instructed to maintain any surveillance over Johnson to prevent his departure, which could readily have been requested by the Haitian Government. Its failure to do so strongly supports the belief which I continue to hold that Johnson left Haiti with the tacit approval of the Haitian Government.

Respectfully yours,

NORMAN ARMOUR

338.1121 Zrike Bros. and Johnson/79: Telegram

The Minister in Haiti (Armour) to the Secretary of State

PORT-AU-PRINCE, November 2, 1933—11 a. m.

[Received 12:45 p. m.]

116. Legation's despatches number 172 and 174 of October 30.¹² The Minister of Foreign Affairs has called at the Legation in person and informed me that the Haitian Government desires to withdraw its note concerning Johnson. I accordingly returned the note to him and the incident may presumably be considered closed.

The Minister of Foreign Affairs informed me that it is the present intention of the Government to judge Johnson by default.

ARMOUR

338.1121 Zrike Bros. and Johnson/82

The Acting Secretary of State to the Minister in Haiti (Armour)

No. 102

WASHINGTON, November 16, 1933.

SIR: Referring to your despatch No. 172 of October 30, 1933, in relation to the departure from Haiti of Mr. D. P. Johnson, and particularly to the enclosed copy of a proposed note to the Haitian Government in response to its note of October 28, 1933,¹³ wherein you refer to possible proceedings looking to the extradition of Mr. Johnson from the United States to Haiti, the Department informs you that in Article IV of the Extradition Treaty of 1904 between the United States and Haiti¹⁴ it is provided that neither of the Contracting Parties shall be obliged to deliver up its own citizens and that the courts of the United States hold that when such provisions occur in treaties of the

¹¹ Not printed.

¹² Despatch No. 174 not printed.

¹³ Neither printed.

¹⁴ *Foreign Relations*, 1905, p. 554.

United States, without any following provisions to the effect that the Contracting Parties may deliver up their own citizens if they see fit to do so, the Executive Branch of the Government of this country is without authority to extradite American citizens.

Inasmuch as it appears from telegraphic advices received from you later in date than your despatch above-mentioned that the Haitian Government has withdrawn the note to which you proposed to reply, such a reply of course becomes unnecessary.

Very truly yours,

For the Acting Secretary of State:
JEFFERSON CAFFERY

338.1121 Zrike Bros. and Johnson/83

The Minister in Haiti (Armour) to the Acting Secretary of State

No. 200

PORT-AU-PRINCE [undated.]
[Received December 2, 1933.]

SIR: I have the honor to refer to the Department's instruction No. 102 of November 16, 1933, in reply to the Legation's despatch No. 172 of October 30, concerning the departure from Haiti of Mr. D. P. Johnson.

With reference to the observations in the Department's instruction concerning the provisions of the Extradition Treaty of 1904 between the United States and Haiti and the promise that neither of the contracting parties shall be obliged to deliver up its own citizens, it is desired to point out that it was never the intention of the Legation to suggest or recommend to the Haitian Government that it institute proceedings to bring about the extradition of Mr. Johnson, and that paragraph three of the proposed note was included solely for the purpose of endeavoring to have the Haitian Government indicate clearly what might be its intention in raising the question at this late date. Had the Haitian Government replied that extradition was sought, or had it instructed its Legation at Washington to request it, in accordance with the usual procedure, it was assumed that our Government's reply would have been along the lines of the Department's instruction under reference.

As stated by the Department, the withdrawal of the note apparently closes the incident.

Respectfully yours,

NORMAN ARMOUR

MEXICO

EFFORTS TO REACH A SETTLEMENT BETWEEN THE UNITED STATES AND MEXICO REGARDING CLAIMS¹

411.12/1578 : Telegram

The Secretary of State to the Chargé in Mexico (Lane)

WASHINGTON, March 31, 1933—4 p. m.

34. Your 54, March 29, 4 p. m.² You may inform the Minister for Foreign Affairs:

1. That the Convention for renewal of the General Claims Commission³ does not require prior advice and consent to ratification by the Senate of the United States and may be brought into force at any time by exchange of ratifications.

2. That inasmuch as the protocol supplementing the Convention for renewal of the Special Claims Commission⁴ contains subject matter deemed to be not within the purview of the original Convention of September 10, 1923,⁵ that Convention has been submitted to the Senate of the United States for its advice and consent to ratification. The matter has been referred to the Senate Committee on Foreign Relations and is still pending.

HULL

411.12/1586 : Telegram

The Chargé in Mexico (Lane) to the Secretary of State

MEXICO, April 7, 1933—4 p. m.

[Received 8:45 p. m.]

65. I called on Minister of Foreign Affairs this morning at his request. Doctor Puig read to me a telegram which he had sent to Ambassador González Roa⁶ on April 3rd requesting the latter to talk

¹ For previous correspondence, see section entitled "Conventions Between the United States and Mexico Further Extending the General and Special Claims Conventions of September 8 and 10, 1923," *Foreign Relations*, 1932, vol. v, pp. 732 ff.

² Not printed.

³ Signed June 18, 1932, *Foreign Relations*, 1932, vol. v, p. 740.

⁴ Signed June 18, 1932, *ibid.*, p. 744.

⁵ *Ibid.*, 1923, vol. II, p. 560.

⁶ Mexican Ambassador in the United States.

to Ambassador Daniels⁷ regarding the advisability of initiating discussions on en bloc settlement and deferring for the time being further negotiations with regard to the appointment of a presiding commissioner of the General Claims Commission. Doctor Puig also read me a telegram from Ambassador González Roa dated April 5th reporting that he had a long conversation with Ambassador Daniels that morning and that Ambassador Daniels agreed that it would be advisable to defer further talks regarding the appointment of a presiding commissioner until he had had an opportunity to discuss en bloc settlement with Doctor Puig.

I told Doctor Puig that of course I had no instructions either from the Department or from Ambassador Daniels as to deferring discussions concerning presiding commissioner. Emphasizing that it was merely my own personal view, I said that I thought it was unfortunate not to proceed with the reconstitution of the General Claims Commission, as presumably discussions regarding en bloc settlement would occupy a period of several months, and that I thought it would be difficult for our Government satisfactorily to explain to claimants and to Congress the delay in reconstitution of the Claims Commission. In this connection please see my despatch 2422 of March 27th, page 5.⁸

While I did not so state I had in mind the possibility that the negotiations for en bloc settlement might not be consummated and that therefore the functioning of the General Claims Commission would be delayed by the amount of time required to discuss en bloc settlement.

LANE

411.12/1596 : Telegram

The Ambassador in Mexico (Daniels) to the Secretary of State

MEXICO, May 1, 1933—10 a. m.

[Received 3:24 p. m.]

85. I called on the Minister of Foreign Affairs Saturday afternoon and told him that I had read his memorandum (see my telegram 73, April 22, noon)⁸ and that I was heartily in accordance with his view that an en bloc settlement is desirable.

Dr. Puig said that Mr. Pani⁹ did not expect to initiate en bloc negotiations in Washington but would be prepared to stress the discussion of economic and monetary matters. He said that he was preparing a memorandum giving his concrete proposals for an en bloc adjust-

⁷ Josephus Daniels, American Ambassador to Mexico, appointed March 17, 1933.

⁸ Not printed.

⁹ Alberto J. Pani, Minister of Finance.

ment which he would present to me sometime next week. I am sending a full report of my conversation with Dr. Puig by the next pouch.

I believe that it would be unwise for the Department to enter into discussion with Mr. Pani on en bloc settlement until after Dr. Puig presents his promised suggestion of a means of arriving at such settlement and you receive my recommendation after study of Puig's forthcoming memorandum.

DANIELS

411.12/1608

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 57

MEXICO, May 12, 1933.

[Received May 17.]

SIR: I have the honor to submit for the information of the Department a brief report concerning the different steps taken since my appointment in connection with an en bloc settlement of claims.

As the Department is aware, Ambassador González Roa, under telegraphic instructions from his Government dated April 3, 1933, conferred with me in Washington on April 5th regarding the appointment of a Presiding Commissioner for the General Claims Commission, the great desire of the Mexican Government to initiate upon my arrival in Mexico City immediate and formal negotiations looking to an en bloc settlement of claims, and the desirability of postponing further talks regarding the appointment of a Presiding Commissioner for the time being. I agreed to the plan proposed until I had an opportunity to discuss the en bloc plan in Mexico City with Doctor Puig, Minister for Foreign Affairs.

The substance of the above exchange of views was communicated by Doctor Puig to Mr. Lane, Chargé d'Affaires, on April 7th, and reported by the latter to the Department in Embassy telegram number 65 of April 7th.

On April 13th the Department informed the Embassy by telegram number 49, 5 p. m.,¹¹ that it was disposed to defer to the views of the Mexican Government concerning a decision on the selection of a Presiding Commissioner in the hope that the negotiations between myself and the Minister for Foreign Affairs might give an early indication as to whether or not an acceptable en bloc settlement could be secured.

I arrived in Mexico City on April 15th and presented my credentials on April 24th. However, on April 22nd Minister Puig delivered to me a brief memorandum covering three main topics: *a*) the social aims of the Revolution and their interpretation in the United States; *b*) the pending claims before the Commissions, friction in connection there-

¹¹ Not printed.

with, and the effect on the cordial relations between the two countries; c) advantages of an en bloc settlement. A translation of this document and other pertinent papers were forwarded to the Department with my confidential despatches numbers 2 of April 25 and 16 of April 29, 1933.¹²

On April 29th I conferred with the Minister for Foreign Affairs, Doctor Puig. I advised him that I had read his very informative memorandum and that I agreed entirely with him that an en bloc settlement was the best solution to the present problem. I then asked if he had any definite proposals either in the nature of a program or figures. Minister Puig informed me that he would prepare a study with concrete proposals to be delivered three or four days after May 1st. A copy of the memorandum of this conversation was transmitted to the Department as an enclosure to my confidential despatch number 25 of May 2, 1933.¹³

On May 3rd, Mr. Lane and Colonel Moreno¹⁴ visited the Chief of the Diplomatic Department of the Foreign Office to examine in a general way the files relating to the settlement of claims between Mexico on the one hand and France and Spain on the other, settlements that had been referred to by Minister Puig on April 29, 1933. A memorandum of this conversation with Mr. Sierra is transmitted herewith.¹⁵

Yesterday (May 11) being diplomatic reception day, I called on Doctor Puig, and in the course of our conversation I inquired regarding the status of the en bloc study he was preparing. Minister Puig replied that owing to the pressure of other business and to his being short-handed (he specifically mentioned that he had at present no Undersecretary, nor a Chief of his Legal Department, Licenciado Suárez having been in the United States on a mission for Mr. Pani since the first of the year), he had been unable to complete the study as soon as he had anticipated, although he had given the matter practically his entire time. He hoped, however, to have it completed in a few days.

In order that Minister Puig, in the preparation of his study, might have a complete understanding of the exhaustive studies prepared by the Embassy in connection with the settlement of claims between governments, which form the basis of the percentages used in the proposals heretofore presented to the Foreign Office by the Embassy, I have informed Minister Puig today in writing that I shall be pleased to place at his disposal the numerous tables prepared in the Embassy, and that Colonel Moreno is ready to explain them at any time that Minister Puig desires.

Respectfully yours,

JOSEPHUS DANIELS

¹² Neither printed.

¹³ Not printed.

¹⁴ Aristide Moreno, the Embassy's adviser on Mexican Claims.

411.12/1648

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 456

MEXICO, August 8, 1933.

[Received August 15.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction number 114 of August 2, 1933.¹⁶

The discussion which I had hoped might take place between the Minister for Foreign Affairs and myself during the latter part of June, or subsequently, has never materialized. The Department will note, however, from my despatch number 402 of July 26th,¹⁶ which presumably crossed the Department's instruction under acknowledgment, that Doctor Puig said that he would be in a position to take up the question of an en bloc settlement with me during the early part of August.

My surmise is that Doctor Puig's failure to take up the en bloc situation with me is due to his not having been in a position to carry on any negotiations in the absence from Mexico City of General Calles and the Minister of Finance, Mr. Pani, who returned to Mexico City on July 30th and July 31st, respectively . . .

I shall, of course, keep the Department advised of any further developments.

Respectfully yours,

JOSEPHUS DANIELS

411.12/1668

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 646

MEXICO, October 2, 1933.

[Received October 5.]

SIR: I have the honor to refer to the Embassy's despatch number 620 of September 22, 1933,¹⁶ in which I reported to the Department the receipt from Doctor Puig, Minister for Foreign Affairs, of a memorandum containing in general terms the proposals of the Mexican Government for an en bloc settlement of claims pending between the United States and Mexico and which have been filed with the General and Special Claims Commissions.

I now transmit a memorandum prepared by Colonel Moreno, analyzing these proposals, their effect on the American claims, and the points of difference with previous studies on the subject (Enclosure number 1).¹⁶

¹⁶ Not printed.

There is enclosed also a memorandum of conversation¹⁷ at a conference held on September 28th between Messrs. Suárez and Sierra of the Foreign Office, and Colonel Moreno. At this conference views were exchanged as to the use, as an index figure in the settlement of the claims before the General Commission, of the percentage recovery that the decisions rendered so far by the General Claims Commission give. This recovery is approximately 24%. Mr. Suárez contended that this figure was too high and not equitable, as it included the award of the Illinois Central Railroad Company claim for approximately two million dollars, which the Mexican Government did not contest and was ready to pay at the time; that this offer of settlement was not approved by the Agent of the United States, who insisted that the case be considered by the Commission; and that, deducting said award, the recovery percentage would not exceed 8%. If the Illinois Central claim is deducted, Mr. Suárez is fairly correct, the percentage being 8.2%. There is strong argument in favor of his position that this claim should be deducted and a figure of 8% applied. Mr. Suárez also stated that the 11½% recovery percentage, heretofore considered by the United States for a settlement of both General and Special Claims, was much higher than the results they had obtained in their examination of arbitration adjustments.

The attention of the Department is also invited to the views of Messrs. Suárez and Sierra on agrarian claims. They contended that the agreements resulting from the Bucareli Conferences¹⁸ are not embodied in a Convention; that the payment for agrarian expropriations¹⁹ is made in bonds which are very much depreciated in value; and, finally, that the arguments of Mexico in connection with the exercise of the right to expropriate lands are such that there is considerable doubt that the Commission would render a decision unfavorable to Mexico. (Enclosure number 2.)¹⁷

The Mexican proposal involves the following points:

I. Elimination of claims in which the memoranda filed with the Secretariats state no amounts.

(From an analysis of the records available at the Embassy, 98 General Claims, aggregating about 83½ million dollars, would be affected.)

II. (a) Deduction of the amount covering similar claims presented to both Commissions on the same grounds. (This covers claims duplicated in filing due to uncertainty of jurisdictional provisions.)

(b) Elimination of claims otherwise duplicated in filing.

(c) Elimination of claims that have been withdrawn.

¹⁷ Not printed.

¹⁸ See *Proceedings of the United States-Mexican Commission, Convened in Mexico City, May 14, 1923* (Washington, Government Printing Office, 1925), p. 3.

¹⁹ See *Foreign Relations*, 1923, vol. II, pp. 528-532.

III. Elimination of the Special Claims the filing of which was disapproved by the Commission in its decision of April 24, 1931.²¹

IV. Elimination of claims that have been adjudicated by the Commissions.

V. (a) Deduction from the amount remaining of the value of the claims presented by Mexico against the United States, following the same principles outlined in preceding paragraphs.

(b) Adjustment of the remaining American claims by the payment by Mexico to the United States of the sum resulting by applying a percentage which is not to be very much higher than the average percentage that Mexico has to pay to the Governments of France and Spain under settlements similar to the one proposed to the United States and covering similar claims at least as regards the Special Commission. The statement is made that the above percentage is higher than the real percentage reached under the 1839²² and 1868²³ Commissions between the United States and Mexico.

The average percentage of recovery in the French and Spanish claims is approximately 2.3%. Using this index figure in the American claims, the amount recovered would be approximately 7¾ million dollars plus the amount of the awards to date, 2½ millions, bringing the total to 10¼ millions.

The attention of the Department is especially invited to Point I. The records of the Joint Secretariat of the General Claims Commission contain about 98 memoranda in which no amount is stated. The records of the American Agency show that subsequent to the filing of the memoranda, claimants furnished additional information, so that the 98 claims originally filed with no amounts are reduced to 51. In the 47 remaining cases, the alleged losses or damages aggregate approximately 83½ million dollars. This amount was included in the original en bloc computations.

Of the 47 cases referred to above, it appears from the last survey conducted by the Agency that only 9 may be memorialized for approximately 6½ million dollars. The earlier estimates were for 56 million dollars.

In view of the above situation and of the fact that under the rules of the General Claims Commission a claim shall be deemed to have been formally filed with the Commission upon the presentation to the Secretaries of a memorandum setting forth the name of the claimant, a brief statement of the nature of the claim, *and the amount thereof*, a requirement lacking in this group of claims, it is deemed desirable

²¹ Special Claims Commission, United States and Mexico, *Opinions of Commissioners*, April 26, 1926, to April 24, 1931, pp. 44 ff.

²² Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 4, p. 189.

²³ William M. Malloy (ed.), *Treaties, Conventions, etc., Between the United States of America and Other Powers, 1776-1909* (Washington, Government Printing Office, 1910), vol. I, p. 1128.

not to jeopardize the negotiations through the non-acceptance of this particular point.

From a preliminary study of the proposals and of the factors connected with the solution of the problem, I am inclined to favor the agreement, except as to V (b), on the proposals covered by the points enumerated above. Many of these points have been included in the en bloc studies heretofore prepared by the Embassy and in the proposal submitted to the Foreign Office on June 24, 1932. As regards V (b), the percentage of 2.3% might be accepted in the settlement of the Special Claims. The average percentage recovery of all the claims for revolutionary losses presented by Belgium, Germany, Great Britain, Italy, France, and Spain to Mexico has been approximately 2.6%. These claims are similar to our Special Claims. I do not see how, in view of the fact that six countries have agreed to accept this 2.3% settlement, we could demand a higher percentage on Special Claims, seeing that the claims of these countries stand upon the same basis as those presented by Americans.

In exchanging views with Doctor Puig, I stated that a greater percentage should be considered for the General Claims, a point in which Doctor Puig apparently agreed in general terms. However, he replied that inasmuch as he was not familiar with the details, the matter had better be taken [up] with his advisers. Messrs. Suárez and Sierra of the Foreign Office are strongly of the opinion that the percentage of 2.3 should be applied to both the General and Special claims. However, they stated that a slightly greater percentage might be considered, for the General Claims.

Pending any further exchange of views with the Foreign Office, I should be glad to have the views of the Department on the different points herein presented, which must form the basis of a Convention providing for the en bloc settlement of claims and the method of payment.

Respectfully yours,

JOSEPHUS DANIELS

411.12/1684

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 757

MEXICO, November 1, 1933.

[Received November 4.]

SIR: I have the honor to refer to the Embassy's despatch No. 735 of October 25, 1933,²⁴ reporting a conference held by me on October 24th with Ambassador González Roa. We have held other meetings, on

²⁴ Not printed.

October 26th, 28th and 31st. Colonel Moreno has attended these conferences.

Subsequent to general exchanges of views on points involved in an en bloc settlement of claims, Ambassador González Roa on October 28th presented an informal plan for discussion. Under the terms of this plan one or two of the stipulations embodied in the memoranda of the Foreign Office dated September 21, 1933 and October 17, 1933, and calling for the elimination of certain claims are omitted.

Specifically, Ambassador González Roa proposes the settlement of Special claims, after deducting the duplicated, withdrawn and adjudicated claims, on a basis of 2.65% for memorialized claims and of 1.25% for the balance, or unmemorialized claims.

The index-figure of 2.65% is the average percentage in the settlement made by Mexico with Belgium, France, Germany, Great Britain, Italy, and Spain, for revolutionary claims which are similar to the American Special claims.

The index-figure of 1.25% is the average recovery under the Claims Conventions between the United States and Mexico in 1839 and 1868.

For the General claims there is contemplated the deduction of the duplicated, withdrawn, and adjudicated claims, and of those filed by Mexico; the settlement of the net remaining balance to be on the proportional basis of 8% for memorialized claims and of 1.25% for those unmemorialized.

At the conference held on October 31, Ambassador González Roa explained that the effect of the above proposal would be the settlement of one-fifth of the net balance (after deducting the value of claims duplicated, withdrawn, adjudicated, filed by Mexico) on a basis of 8% and the remaining four-fifths on the basis of 1.25%, one-fifth being the proportion of claims memorialized so far by the United States.

In addition, the 83 million dollars worth of American claims, in which the memoranda filed with the Joint Secretariat specify no amount, would be settled on the basis of 1.25%. The elimination of this group of claims is proposed in the two memoranda of the Foreign Office referred to above.

Under the above basis, the Government of Mexico would be called to pay the Government of the United States approximately ten million dollars. This amount includes two-sixth millions [\$2,600,000] for the awards heretofore rendered by the General Claims Commission, and eight hundred thousand dollars past due interest.

In view of the complicated procedure and of the different interpretation given to the plan on the computations made by the Embassy, Ambassador González Roa subsequently made a lump sum proposal of 13-1/2 million dollars.

On the computations discussed with Ambassador González Roa on October 24th and reviewed on page three of the enclosure to the Embassy's despatch No. 735 of October 25, 1933, the anticipated recovery, including awards, would be approximately 14 million dollars.

To this amount should be added two million dollars to cover the settlement on a 1.2% basis of the 83 million dollars worth of claims that have no registered amount in the Joint Secretariat, and about eight hundred thousand dollars interest past due. These two items are included in the plan of Ambassador González Roa. They are excluded in the memoranda from the Foreign Office.

The difference between the two computations is approximately six million dollars. This difference was considered by Ambassador González Roa in making a proposal for 13½ million dollars. He also suggested that in the final documents to be exchanged, no reference be made to percentages, but that it be made to appear that the amount to be paid is a lump sum settlement. In this suggestion I think he is right, and our plan provided for that. It is, of course, in accord with an en bloc settlement.

The amount of 13½ million dollars is an increase of about 2½ million dollars on the terms of the proposal of the Foreign Office dated September 21, 1933, and of approximately 3¼ million dollars on the terms of the second proposal of the Foreign Office dated October 17, 1933. The details of the former are discussed at length in the Embassy's despatch No. 646 of October 2, 1933, and of the latter, in the Embassy's despatch No. 720 of October 23, 1933.²⁵

It has been made clear to Ambassador González Roa that all plans must be submitted to the Department of State for the consideration of the views and different plans that have been discussed between ourselves, and that before I can make any recommendations to the Department it is important that it should be made clear what are the plans of the Government of Mexico for the payment of whatever lump sum amount might be agreed to by the two Governments. I have stated to Ambassador Roa that method and dates of payment should be an integral part of any agreement or convention.

Ambassador González Roa is planning to discuss the financial arrangement suggested by me with the Acting Minister for Foreign Affairs, with the Acting Minister of Finance, and with President Rodríguez. He will then be in a position to take up with me this phase of the proposed en bloc settlement.

For the information of the Department there are forwarded herewith eight enclosures²⁶ that relate to the conferences I have had

²⁵ Despatch No. 720 not printed.

²⁶ Not printed.

with Ambassador González Roa. A descriptive page accompanies the said enclosures.

I feel it my duty to say that, if possible to reach any fair agreement on a fixed amount, our Government should be ready to go more than half way. The records of past claims conventions with Mexico show that the United States has received—counting from 1838 to the present—an average percentage of approximately 2%. Unless an en bloc settlement is reached, the only alternative is a recourse to the old Claims Commissions, which can be compared to nothing so well as the famous case of *Jarndyce vs. Jarndyce*.^{26a} The two Claims Commissions, since their organization in 1924, have cost the United States in salaries and expenses about two million dollars. The cost to the Mexican Government is estimated to be between two and one-half to three million pesos. It is far better to concede reductions to Mexico than to continue to pay out such large sums for a period, the length of which cannot be determined. Since 1825, when our first Minister, Honorable Joel R. Poinsett reported that claims, many of them having no substantial foundation, made his duties troublesome, the same difficulty has confronted all American Ministers and Ambassadors. Then and since then claims have tended to mar understanding between the two countries. The continual hearings, with charges and counter-charges growing out of the padded claims presented by both sides, threaten to make friction and deny that relation of brotherhood so much desired.

In order that I may be guided in future discussions, I would appreciate receiving at the earliest opportunity the comments of the Department on the reports heretofore made by me in connection with en bloc discussions. They are covered in despatch No. 620 of September 22; No. 646 of October 21 [?]; No. 720 of October 23; No. 735 of October 25;²⁷ and the present one.

Respectfully yours,

JOSEPHUS DANIELS

411.12/1696 : Telegram

The Ambassador in Mexico (Daniels) to the Acting Secretary of State

MEXICO, November 17, 1933—1 p. m.

[Received 8:40 p. m.]

220. Reference Department's telegram 157, November 17, 11 a. m.,²⁸ Ambassador González Roa's proposal involves payment by Mexico, of approximately \$13,500,000. This amount is about \$3,500,000 higher than original proposal as discussed in Embassy's despatch No. 757,

^{26a} Case described by Charles Dickens in the novel *Bleak House*.

²⁷ Despatches Nos. 620, 720, and 735 not printed.

²⁸ Not printed.

November 1, 1933. Regarding method of payment the Ambassador stated informally that President Rodríguez felt that in view of the critical condition of the Treasury the Government would be unable to liquidate the debt in one or several early payments; that he was not in favor of a bond issue on account of the effect on the public debt preferring agreement through an international convention which would have priority over domestic debts. Based on the precedent of the 1868 agreement Ambassador González Roa suggested payments extending over a period of years, about 30 years. No payment of interest during period of liquidation. In support of time period he pointed out the internal debt of Mexico is being liquidated in 40 years and also he referred to the long term payments of the Italian inter-governmental debt to the United States and to the payment by Germany of awards of the German American Claims Commission. Detailed memorandum of the conference held yesterday²⁹ being forwarded by air mail leaving here tomorrow morning. Colonel Moreno ready to leave with pertinent data upon receipt of further instructions from the Department.

DANIELS

411.12/1706

The Ambassador in Mexico (Daniels) to the Acting Secretary of State

No. 859

MEXICO, December 6, 1933.

[Received December 13.]

SIR: Yesterday when I called to see Mr. Torreblanca, the Acting Minister for Foreign Affairs, on his regular receiving day, he asked me what progress had been made following my conversations with Ambassador González Roa with reference to the latter's proposal for an en bloc settlement. I advised him that Colonel Moreno, the Embassy's expert official on claims, was now in Washington going over the whole situation with the legal officers of the State Department, and that, pending the full exploration of the matter, I could give him no information. I suggested, however, that the proposition of Ambassador González Roa for payment over a period of thirty years provided for a very long period and the claimants would doubtless object to waiting so long for their money. As to the question of acceptance of the sum proposed by Ambassador González Roa of thirteen and a half million dollars, I told Mr. Torreblanca that the suggestion had been submitted to the State Department, but that I had received no intimation of its attitude and no instructions. Mr. Torreblanca expressed the hope that an early answer could be made.

²⁹ Memorandum of November 16 enclosed with despatch No. 809, November 17. not printed.

In connection with the thirty-year period of payment, in one of our conversations Ambassador González Roa told me he had based his proposition upon the precedent of the 1868 Commission between the two countries, when the payments extended over a period of about thirty years. However, as a matter of fact, the 1868 awards of \$4,000,000 were liquidated in fourteen installments, each amounting to about \$300,000 except the last one (see Memorandum of Conversation sent November 16, 1933 ³⁰).

About the time a Special Claims Commission was set up to consider claims of our nationals originating between 1910 and 1920 against Mexico, or following the agreement between the United States and Mexico for the creation of such a Commission, somewhat similar methods were set up looking to an understanding with European countries whose nationals had presented claims against the Mexican Government not unlike those filed by Americans, based on injuries during the disturbed period from 1910 to 1920. As a result, Mexico and all the European countries have agreed that Mexico will make payments on a basis of an average of 2.64 per cent. Ambassador González Roa urged that the United States ought to be willing to accept a settlement of the same percentage. In view of the agreement of all the European countries on a 2.64 percentage, it does not seem that the United States could with good grace and with sound argument press for a larger amount. However, undoubtedly some of our nationals whose claims are for much larger sums than the European claims, would expect a larger payment, though, in view of past settlements growing out of claims, they must recognize that most claims will be scaled. How could we stand out for larger sums than the percentage accepted by Spain and France and other European countries, when the claims are of the same character?

Having long ago reached agreements with France, Spain, Great Britain, Belgium and Germany for a percentage or en bloc settlement, the representatives of these countries seem to be urging the Mexican Foreign Office to proceed to payment either in cash or annual installments. "In every instance", said the Acting Minister for Foreign Affairs, "when the Ambassadors or Ministers of those countries have urged action, they have been informed by the Foreign Office that it would take up the arrangement of the claims with them as soon as an agreement could be reached with the United States". Evidently some of the representatives of these nations are pressing for settlement, particularly since the newspapers here have carried notices that the Mexican and American officials have been negotiating with reference to an en bloc settlement. As I understand it, the claims of the European nations are similar to our claims filed with the Special Claims Commission.

³⁰ Not printed.

It is the expectation of Mexican authorities, as stated by both Minister Puig and Ambassador González Roa, to pay the United States a larger percentage on claims filed with the General Claims Commission than they offer on the Special Claims. If there is wide difference of opinion between the two countries as to the amount which Mexico should pay on the General Claims, would it be wise to consider reaching an understanding on the Special Claims and leave the matter of an agreement on the General Claims open for future negotiations? I am not proposing this, but only suggesting if there is an impasse on General Claims, whether the Special Claims agreement should be held up waiting upon a General Claims agreement.

My own opinion is that the wisest course is to do everything reasonably possible to reach an en bloc settlement on all claims and not take two bites at this cherry. Some day there must be recognition of the true situation and a willingness to meet the Mexicans more than half way on these claims controversies. As long as they are not adjusted, they will constitute a continual running sore. Dr. Puig stressed this danger in his long memorandum (see enclosure to despatch number 16 of April 29, 1933²¹). The two Commissions up to date have cost the United States Treasury nearly two million dollars. The claimants of neither country have obtained anything. And the financial situation of Mexico is such as to make the hope of securing payment of any large sum out of the reach of realization. Indeed, the lion in the path of any settlement is the deficit in the Mexican Treasury.

It is because of my belief that it is of the highest importance to put out of the way issues that continually work for friction between the two countries, my knowledge that many of the claims presented by Americans have no sound basis to rest upon and that the same is true of Mexican claims, and the fear that insistence upon large payments will keep open for years the whole question, that I feel our country should accept a much less sum than we would insist upon if conditions were different. As a matter of fact, Mexico has not paid the interest on its foreign debt for a dozen years or more, and the Government is now running at a loss. Is it not wiser for a creditor to accept much less than he feels he should receive from a debtor who is embarrassed, and thereby promote good feeling? Americans and Mexicans have both greatly padded their claims and many of them cannot stand the light, and not a few Americans filed their claims with both the General and Special Commissions, some of them alleging that they did so because they did not know under which Commission they would be considered. Recalling that our Government has spent nearly two million dollars on the two Commissions in the past ten years, and with negligible results, it does not seem that there is any hope of achieving

²¹ Not printed.

as good results by re-constituting either of these Commissions as by diplomatic negotiations. Would it not be better to keep our money to pay claimants than to expend it in long drawn out, costly, and ineffective Commissions?

Just before leaving Washington for Mexico last March, after a conference with Secretary Hull, I discussed the en bloc settlement, brought to my attention by Ambassador González Roa, with Honorable Key Pittman, Chairman of the Senate Committee on Foreign Relations. Of course we went into no details. We both felt at that time that if possible an en bloc settlement should be reached—no figures or percentages were mentioned—and then that each country should pass upon the claims of its nationals. Not long ago I received a letter from Chairman Pittman who, writing on another subject, at the close of his letter said: "What is the status of the claim situation as between Mexico and the United States?" Answering his letter, under date of November 16, 1933, I said:

"In response to your inquiry: 'What is the status of the claim situation as between Mexico and the United States?', there is nothing definite as yet to report. I have had a number of conferences, first with the Minister for Foreign Affairs, and later with Ambassador González Roa who has submitted a proposition which has been forwarded to the State Department. The more I have studied this matter, the more I become convinced that the claims on both sides have been padded to such an extent that it is difficult to separate the wheat from the chaff. Many of the claims by people in the United States are without merit; some of them are full of merit. The same thing is true to an even greater extent with the claims that Mexico has submitted against the United States. Colonel Moreno, who has given long thought to this matter, is going to Washington shortly to give the State Department all the information in the Embassy, and I sincerely hope a convention may be agreed upon that will be just. As soon as any agreement is reached, I will communicate with you."

On the same date (see despatch number 808 of November 16, 1933 ³²), writing to the Department, I stated that I had received the inquiry from Chairman Pittman. That despatch contained the substance of my reply to Chairman Pittman and added:

"It may be that the Secretary would wish to have a conference with him (Senator Pittman) about this whole matter, which later, if an agreement is reached, will be submitted to his Committee."

I did not feel at liberty to write to Chairman Pittman the terms of the proposal or give any detailed information, thinking that the Secretary would do this if he thought it advisable.

Answering my letter, I have received the following from Chairman Pittman, dated November 25, 1933:

³² Not printed.

"I note what you say with regard to the status of the claims situation as between Mexico and the United States. Your report convinces me more than ever that the plan outlined to have each government agree to pay the claims established by its own nationals at some fixed amount is the one way we may successfully handle the matter."

I shall await your further advices and instructions.

Respectfully yours,

JOSEPHUS DANIELS

411.12/1696 : Telegram

The Acting Secretary of State to the Ambassador in Mexico (Daniels)

WASHINGTON, December 9, 1933—2 p. m.

163. Reference Embassy's despatches 757 of November 1 and 809 of November 17, 1933,³³ and Embassy's telegram 220, November 17, 1 p. m. regarding en bloc negotiations, you are advised as follows:

After a careful study of the situation from international and domestic points of view the Department considers that the proposal of the Mexican Government is unacceptable, both as regards amount and terms of payment. It is believed that a settlement on the basis of a counter proposal can not be negotiated and a Convention drafted in time to be presented to the Mexican Senate before its adjournment this month. The Department is giving consideration to the terms of a protocol to be negotiated with the Mexican Government which need not be submitted to Congress. It would provide for the prompt completion of pleadings and exchange of same by agencies of the two Governments within 2 years in order to determine the actual worth of unadjudicated cases heretofore filed by both Governments. During the above period it is not anticipated that commissions be organized for the hearing of cases. After all cases have been pleaded the two Governments would be in better position to appraise them for purposes of an en bloc settlement. If such an en bloc settlement were then impossible, speedy adjudication by a mixed claims commission or by simplified procedure could be undertaken.

The Department has in mind as simplified procedure the designation by each Government of an outstanding jurist who would be its own national and who would go over all claims as fast as the pleadings are completed for the purpose of appraising them on their individual merits. After the completion of all pleadings these two officials could meet and reconcile their appraisals and if they could not agree upon the final disposition of all cases, they could enter awards in those cases on which they were able to agree and submit to a neutral umpire

³³ Latter not printed.

those cases on which they might disagree, the awards in both cases to be final. This would make it possible to terminate the work within a short period at a minimum cost and without friction.

The foregoing may be communicated orally to the Foreign Office. Formal communication with more specific development of these ideas will be sent you in the near future. Moreno leaves tonight and will explain in greater detail.

PHILLIPS

411.12/1713a

The Acting Secretary of State to the Ambassador in Mexico (Daniels)

No. 214

WASHINGTON, December 16, 1933.

SIR: Referring to the Department's cable No. 163 of December 9, 1933, there is now enclosed for your information and for transmission to the Mexican Government the draft of a protocol to be concluded by the two Governments for carrying out the purposes indicated in the above-mentioned cable.

The Department did not fail to give careful and detailed consideration to the proposal of the Mexican Government to pay thirteen and one-half millions of dollars, over a period of thirty years, without interest on deferred payments, in settlement of all General and Special Claims of the United States against that Government. Although such an en bloc agreement would have the desirable effect of removing this entire claims matter from the field of international relations, it would involve domestic considerations of great importance. It is not believed that any amount which Mexico would, at the present time, be willing to agree to pay would be sufficient to cover the just claims of the American citizens whose rights are involved and the proposed method of payment, i. e., without interest on deferred installments, reduces the present valuation of the proposed payment by approximately fifty percent. Moreover, such an en bloc settlement would merely amount to the transfer from the international to the domestic field of the judicial proceedings necessary to the proper appraisal of the individual claims with the consequent assumption, by this Government, of many additional difficulties in that connection. It is felt that this Government could not properly undertake the responsibility for such domestic adjudications in the absence of an en bloc agreement which would insure the payment by Mexico of a sufficient amount fully to meet the ends of justice. There is enclosed for your information in this connection an unofficial office memorandum ⁸⁴ in which many of the considerations bearing upon the matter of such an en bloc settle-

⁸⁴ Not printed.

ment are referred to. This memorandum is sent for your own confidential information and is not to be taken as committing the Department officially to its contents.

Since the above-mentioned proposal of the Mexican Government came too late to make it possible to continue en bloc negotiations with any reasonable prospect of a successful conclusion of a convention during the present session of the Mexican Congress and since it is desirable to avoid the lapse of any additional unnecessary time before finally disposing of this claims matter, it would apparently be most advantageous to both Governments promptly to conclude a protocol along the lines of the attached draft. Under such a protocol, the disposition of the claims can be progressed in a most harmonious, most inexpensive and most expeditious manner.

In presenting this proposed protocol to the Mexican Foreign Office for its consideration, it is desired that you emphasize the fact that it has been drafted in its present form with several specific objectives in view, among which are the following:

First. That of demonstrating the desire of this Government to ask nothing, in the matter of this claims settlement, which is not entirely fair and equitable.

Second. That of simplifying as much as possible the procedure to be followed in evaluating the claims in order to reduce to a minimum both the expense and the time necessarily involved in that connection.

Third. That of removing from the field of possible controversy in connection with the development of the pleadings all occasions for disagreements between Agents, by carefully defining the procedure to be followed by them and by enjoining upon them the scrupulous observance of such procedure.

Fourth. That of removing all occasion for misunderstanding or friction, in connection with the disposition of the cases after pleading, either as between the two Governments or between those who may be designated to adjudicate the claims.

Fifth. That of reserving the question of an en bloc settlement of the claims for the consideration by the two Governments at a time when there is available reasonably accurate information as to their value.

It is not perceived upon what bases the Mexican Government can offer substantial objection to this method of procedure. It is therefore confidently hoped and expected that you will be able to bring about the prompt signature of this protocol. In this connection you may, if occasion presents, emphasize to the appropriate authorities of the Mexican Government that this proposal represents a sincere wish to meet every reasonable expectation of that Government in a spirit of frank and cordial cooperation . . .

Inasmuch as the conclusion of this protocol would involve the appropriation by Congress of the money necessary to make possible

the organization of an American Agency before the preparation of pleadings could be initiated, it is desired that agreement be brought about as soon as practicable. It has been necessary in this connection to include in the protocol a provision authorizing the two Governments to fix, by exchange of notes, the beginning of the two-year pleading period. If this period were to begin with the signature of the protocol, this Government would doubtless have to forfeit, for lack of appropriation, the benefits of a considerable portion of the pleading period.

The enclosed draft, as will be observed, relates to General Claims only. It is thought that it might be advisable to suggest to the Mexican Government that it draft a similar protocol with reference to Special Claims. There appear to be no good reasons why such a Special Claims protocol should differ fundamentally from that relating to General Claims, and it may be that if the Mexican Government were itself to sponsor one of the protocols that would create a greater feeling of mutuality in the matter of the subsequent procedure and perhaps incline the Mexican Government to be less disposed to offer objection, at a later date, to the provisions or general effect of either protocol.

It is desired, however, that you do all possible to avoid impeding the conclusion of the protocol covering General Claims because of any delay in connection with the Special Claims protocol.

Very truly yours,

WILLIAM PHILLIPS

[Enclosure]

Draft Protocol Between the United States and Mexico Regarding General Claims

Josephus Daniels, Ambassador Extraordinary and Plenipotentiary of the United States of America to the Government of Mexico, and Secretary for Foreign Affairs of the Republic of Mexico, having communicated to each other their respective full powers, found in good and due form, have agreed on behalf of their two Governments to conclude the following protocol:

WHEREAS, It is the desire of the two Governments to liquidate and settle as promptly as possible those claims of each Government against the other which are comprehended by, and which have been filed in pursuance of, the General Claims Convention between the two Governments, concluded on September 8, 1923;

WHEREAS, It is not considered expedient to proceed, at the present time, to the formal arbitration of the said claims in the manner provided in that Convention;

WHEREAS, It is considered to be conducive to the best interests of the two Governments, to preserve the *status quo* of the General Claims Convention above mentioned and the Convention extending the duration thereof, which latter was concluded on June 18, 1932, but to endeavor to effect a more expeditious and more economical disposition of the claims, either by means of an en bloc settlement or a more simplified method of adjudication, and

WHEREAS, In the present state of development of the numerous claims the available information is not such as to permit the two Governments to appraise their true value with sufficient accuracy to permit of the successful negotiation of an en bloc settlement thereof at the present time;

THEREFORE, It is agreed that:

First, the two Governments shall proceed, in accordance with the provisions of paragraph "*Fifth*" below, promptly to complete the written pleadings in such of the remaining unpleaded and incompletely pleaded cases as appear to them, respectively, to warrant such a course of action;

Second, as soon as the pleading of the cases shall have been resumed, each Government shall promptly designate, from among its own nationals, a Commissioner, who shall be an outstanding jurist and whose function it shall be to appraise, on their merits, as rapidly as possible, the claims of both Governments which have already been fully pleaded and those in which the pleadings shall be completed in accordance herewith.

Third, six months before the termination of the period herein agreed upon for the completion of such pleadings, or at an earlier time should they so agree, the said national Commissioners shall meet, at a place to be agreed upon by them, for the purpose of reconciling their appraisals. They shall, as soon as possible, and not later than six months from the date of the completion of the pleadings, submit to the two Governments a joint report of the results of their conferences, indicating those cases in which agreement has been reached by them with respect to the merits and the amount of liability, if any, in the individual cases and also those cases in which they shall have been unable to agree with respect to the merits or the amount of liability, or both.

Fourth, the two Governments shall, upon the basis of such joint report, and with the least possible delay, conclude a convention for the final disposition of the claims, which convention shall take one or the other of the two following forms, namely, *first*, an agreement for an en bloc settlement of the claims wherein there shall be stipulated the net amount to be paid by either Government and the terms upon which payment shall be made; or, *second*, an agreement for the disposition

of the claims upon their individual merits. In this latter event, the two above-mentioned Commissioners shall be required to record their agreements with respect to individual claims and the bases upon which their conclusions shall have been reached, in the respective cases, which report shall be accepted, by the convention to be concluded by the two Governments, as final and conclusive dispositions of those cases; and, with respect to those cases in which the Commissioners shall not have been able to reach agreements, the two Governments shall, by the said convention, agree that the pleadings in such cases, together with the written views of the two Commissioners concerning the merits of the respective claims, be referred to an Umpire, whose written decisions thereon shall also be accepted by the two Governments as final and binding. The Umpire shall be chosen by joint action of the President of the Permanent Administrative Council of the Permanent Court of Arbitration at The Hague, the President of the Permanent Court of International Justice and the President of the Federal Supreme Court of the Confederation of Switzerland.

Fifth, the procedure to be followed in the development of the pleadings, which procedure shall be scrupulously observed by the Agents of the two Governments, shall be the following:

(a) The time allowed for the completion of the pleadings shall be two years counting from a date hereafter to be agreed upon by the two Governments by an exchange of notes.

(b) The pleadings of each Government shall be filed at the Embassy of the other Government.

(c) The pleadings to be filed shall be limited in number to four, namely, Memorial, Answer, Brief and Reply Brief. Only three copies of each need be presented to the other Agent, but four additional copies shall be retained by the filing Agency for possible use in future adjudication. Each copy of Memorial, Answer and Brief shall be accompanied by a copy of all evidence filed with the original thereof. The pleadings, which may be in either language at the option of the filing Government, shall be signed by the respective Agents or properly designated substitutes.

(d) With the Memorial the plaintiff Government shall file all the evidence upon which it intends to rely. With the Answer the defendant Government shall file all the evidence upon which it intends to rely. No further evidence shall be filed by either side except such evidence, with the Brief, as rebuts evidence filed with the Answer.

(e) In view of the desire to reduce the number of pleadings to a minimum in the interest of economy of time and expense, it shall be the obligation of both Agents fully and clearly to state in their Memorials the contention of the plaintiff Government with respect to both the factual bases of the claim in question and the legal principles upon which the claim is predicated and, in the Answer, the contentions

of the defendant Government with regard to the existence and significance of the facts which it considers to be established by the evidence and the principles of law upon which the defense of the case rests. In cases in which Answers already filed or hereafter filed do not sufficiently meet this provision so as to afford the plaintiff Government an adequate basis for preparing its legal Brief with full general knowledge of the factual and legal defenses of the defendant Government, it shall have the right to file a Counter Brief within thirty days following the date of filing the Reply Brief.

(f) For the purposes of the above pleadings, as well as the appraisals and decisions of the two Commissioners and the decisions of the Umpire, above mentioned, the provisions of the General Claims Convention of September 8, 1923, shall be considered as fully effective and binding upon the two Governments.

(g) Whenever practicable, cases of a particular class shall be grouped for memorializing and/or for briefing.

(h) In order that the two Agents may organize their work in the most advantageous manner possible and in order that the two-year period allowed for pleadings may be utilized in a manner which shall be most equitable to both sides, each Agent shall, within thirty days from the beginning of the two-year pleading period, submit to the other Agent a tentative statement showing the total number of Memorials and Briefs such Agent intends to file. Six months after the beginning of the two-year pleading period, the two Agents shall respectively submit in the same manner statements setting out definitely by name and docket number the claims in which it is proposed to complete the pleadings indicating those in which they intend to combine cases in the manner indicated in paragraph (g) above. The number of pleadings so indicated shall not, except by later agreement between the two Governments, be exceeded by more than ten percent.

(i) In order to enable the Agencies to distribute their work equally over the two-year pleading period, each Agency shall be under the obligation to file its Memorials at approximately equal intervals during the first seventeen months of the two-year period, thus allowing the remaining seven months of the period for the completion of the pleadings in the last case memorialized.

The same obligation shall attach with respect to the filing of the pleadings referred to in paragraph (k) below.

(j) The time to be allowed for filing Answers shall be seventy days from the day of filing Memorials. The time to be allowed for filing Briefs shall be seventy days from the date of filing the Answers. The time to be allowed for filing Reply Briefs shall be seventy days from the date of filing the Briefs.

(k) In those cases in which some pleadings were filed with the General Claims Commission before the date of signature hereof, the

Agency which has the right to file the next pleading shall be allowed to determine when that pleading shall be filed, taking into consideration the necessity of complying with the provisions of paragraph (i) above.

(l) In counting the seventy-day periods mentioned in paragraph (j) above, no deductions shall be made for either Sundays or holidays. The date of filing the above described pleadings shall be considered to be the date upon which they shall be delivered at the Embassy of the other Government. If the due date shall fall on Sunday or a legal holiday, the pleading shall be filed upon the next succeeding business day. The two Governments shall, for this purpose, instruct their respective Embassies to receive and give receipts for such pleadings any week-day between the hours of and except on the following legal holidays:

In Mexico

In the United States

January 1

February 22

May 30

July 4

The first Monday in September

The last Thursday in November

December 25

(m) The periods for filing Answers, Briefs, and Counter Briefs, as indicated above, shall not be exceeded by more than ten days with respect to any particular pleading. In cases in which such period shall be exceeded by ten days or less, in any particular case, such exceeded period shall, at the option of the filing Government, be made up on one or more of the next five pleadings of the same kind. Any tardy pleading which shall not be filed in accordance with this schedule and the delay in which shall not be made up by succeeding pleadings in the manner just indicated, shall be excluded from consideration by the Commissioners or Umpire, unless by agreement of the two Governments they shall be accepted for such consideration.

(n) It shall not be necessary to attach original evidence to the pleadings but all documents submitted as evidence shall be certified as true and correct copies of the original, or, in the event that any particular document filed is not a true and correct copy, the nature of the difference between it and the original copy shall be stated in the certificate. The complete original of any document filed, either in whole or in part, shall be retained in the Agency filing the document and shall be made available for inspection by any authorized representative of the Agent of the other side and, at the request and expense of the latter, a photostat copy of such document shall be provided for use in connection with the next pleadings in the particular case, but not otherwise.

411.12/1719

Memorandum by the Ambassador in Mexico (Daniels) ³⁵

MEXICO, December 19, 1933.

Upon my call at the Foreign Office this morning Mr. Torreblanca, Acting Secretary, expressed the hope that the long-standing differences between the two countries with reference to claims could be adjusted before the Mexican Congress adjourns at the close of the present year. "In our proposition", he said, "we were influenced by the financial situation of Mexico. Our budget for the year shows a deficit. We made the proposal of a settlement for thirty years because we are sure that if that is accepted we can meet every payment as it becomes due. However, if it will interest your Government, I feel sure that we could strain a point and reduce the time to twenty-five years." He indicated that his Government wished to bring to an early close all these claims between Mexico and its creditor countries on this Continent and in Europe.

"Did Ambassador González Roa inform you that all the European countries had reached an agreement with our Government on a basis of 2.6 percent?" he asked.

I answered in the affirmative and added that European claims were confined to those arising between 1910 and 1920, the period embraced in the Convention of the Special Claims Commission, while many American claims came under the General Claims Commission and ran back as far as 1808.

I added that the State Department had stated that both the amount and the time of payment were not regarded as satisfactory.

JOSEPHUS DANIELS

411.12/1717: Telegram

The Ambassador in Mexico (Daniels) to the Acting Secretary of State

MEXICO, December 21, 1933—6 p. m.

[Received 10:42 p. m.]

227. The Department's instruction No. 214 of December 16, 1933, transmitting a draft of protocol to be presented to the Mexican Government in connection with disposal of general claims was received by today's pouch. It would appear that my air mail despatch No. 886 of December 13 ³⁶ had not been received in time to be given consideration by the Department before the signing of the above in-

³⁵ Copy transmitted to the Department by the Ambassador in his despatch No. 907, December 19, 1933; received December 26.

³⁶ Not printed.

struction. In view of my recommendation in the above despatch it would be appreciated in connection therewith to learn by telegraph of the Department's decision thereon before discussing with the Foreign Office the details of the instruction and of the protocols.

DANIELS

411.12/1717: Telegram

The Acting Secretary of State to the Ambassador in Mexico (Daniels)

WASHINGTON, December 26, 1933—1 p. m.

168. Your despatch No. 886, December 13,³⁷ and cable No. 227, Dec. 21. Department has no difficulty in agreeing to the theory that en bloc settlement would offer ideal solution of diplomatic phase of problem if payment were assured. Careful reading of instruction No. 214 of December 16 and its enclosure will probably convince you, however, of the extremely difficult practical problems involved in such a settlement. In view of the fact, as you state, Mexican Government is already asserting its inability to meet foreign debt obligations and has, at Montevideo,³⁸ taken lead in a general movement for moratorium for several years, there would appear to be no considerable advantage to either Mexico or claimants in arbitrarily and blindly reducing claims obligation to definite figures at the present time. Even if payments were to be made by Mexico, distribution thereof to American claimants would have to await domestic adjudication of the claims, since any blindly estimated liability which Mexico would accept in general claims would undoubtedly represent but partial total of adjudications by domestic tribunal and therefore require apportionment of the payments after completion of all adjudications by a domestic tribunal. Such adjudications without defense evidence involve immense difficulties.

Department feels that, so far as concerns general claims, the practical solution suggested by instruction No. 214 of December 16 meets every reasonable expectation or requirement of the present situation, is economical, non-provocative of friction, and could, with cooperation, result in systematic and sane evaluation in 2 or 3 years at which time expectation of more favorable terms of payment would perhaps be justified.

By first pouch Department is sending you memorandum³⁷ of conversation with Senator Pittman, who agrees with this method of procedure.

³⁷ Not printed.

³⁸ For correspondence concerning the Seventh International Conference of American States, held at Montevideo, December 3-26, 1933, see vol. iv, pp. 1 ff.

Please, therefore, endeavor to obtain acceptance of proposed protocol covering general claims enclosed with instruction No. 214.

Department is considering the advisability of authorizing you to propose, for Special Claims, settlement by payment of eight million dollars, which amount represents application of approximately the same average percentage as resulted from settlement of all European claims of the same category. Such a proposal would be on the basis of payment in 10 equal yearly installments with interest on deferred payments beginning at one-half of 1 percent for the first year and increasing by one-half of 1 percent each year thereafter, ending at 5 percent on the last payment and representing an average rate of 2.75. This is a most modest interest requirement and the graduated scale should afford a material inducement to avoid default.

You may, in your discretion when presenting proposed protocol covering general claims, indicate to the Foreign Office that this Government is considering the question as to the proper course of action with respect to special claims. When you have advised of the reaction of the Mexican Government to the proposal dealing with general claims we will be in a better position to communicate with you with respect to an en bloc settlement of the special claims. Meanwhile, Department would be glad to receive your views with respect to such a proposal concerning special claims as above indicated.

PHILLIPS

CONVENTION BETWEEN THE UNITED STATES AND MEXICO FOR THE RECTIFICATION OF THE RIO GRANDE IN THE EL PASO-JUAREZ VALLEY, SIGNED FEBRUARY 1, 1933, AND EXCHANGES OF NOTES³⁹

[The negotiations which resulted in this Convention were primarily based upon recommendations in Minute No. 129 ("Report on Rio Grande Rectification") adopted on July 31, 1930, by the International Boundary Commission, United States and Mexico.⁴⁰ Minute No. 129 was adopted without delay by the American and Mexican Governments. On August 21, 1930, the American Ambassador in Mexico was authorized to initiate negotiations for an agreement, in form of a treaty, which would achieve the engineering and construction features of Minute No. 129.⁴¹ The American Government also desired to have the agreement include a final settlement of the territorial

³⁹ For previous correspondence, see *Foreign Relations*, 1930, vol. III, pp. 535 ff.

⁴⁰ *Foreign Relations*, 1930, vol. III, p. 545. To this Minute was attached a "Joint Report of Consulting Engineers Rio Grande Rectification—El Paso-Juarez Valley," which is printed with the Convention between the United States of America and Mexico, for the rectification of the Rio Grande, signed at Mexico City, February 1, 1933, in Department of State Treaty Series No. 864.

⁴¹ *Foreign Relations*, 1930, vol. III, pp. 551 ff. The later request of the Mexican Government that it, rather than that of the United States, should initiate negotiations, was acceded to by the American Government. (*Ibid.*, pp. 553 ff.)

differences existing between the United States and Mexico in the region covered by the rectification project.

At times there seemed to be a fair chance that a complete adjustment including territorial disputes, could be negotiated either in form of a treaty or of an agreement by the two Boundary Commissioners acting not strictly as such but under special instructions from their respective Governments and endowed with special powers for such signature. Thus, the Commissioners would not be functioning under the provisions of existing treaties but under special powers; the arrangement would be taken out of the category of regular minutes. With regard to the form of agreement, the United States wanted the instrument to be one which would be submitted to the Senate for advice and consent to ratification.

The territorial questions involved (El Chamizal, Córdoba and Horcón tracts, San Elizario "Island") to which was eventually added the Pious Fund Award possessed certain internal political aspects. The latter affected proposals and counterproposals on which mutual agreement was impossible. Finally, in January 1933, the Mexican Minister for Foreign Affairs, José Manuel Puig Casauranc, and the American Ambassador, J. Reuben Clark, Jr., agreed that the most urgent question, the general project of rectification and flood prevention as provided for in Minute No. 129 of July 31, 1930, should be carried through separately in a Convention. Adjustment of the territorial questions was left until such later time as might prove to be more propitious.

Since no settlement of the territorial issues had been achieved when this volume was ready for publication, it was decided, after consultation between the two Governments, to omit at this time documentation on this phase of the negotiations for the years 1931-1933. This decision is in accordance with that section of Department of State Regulation 045.2 which permits certain omissions of documents from *Foreign Relations* "to avoid publication of matters which would tend to impede current diplomatic negotiations or other business."]

Treaty Series No. 864

*Convention Between the United States of America and Mexico for the Rectification of the Rio Grande in the El Paso-Juárez Valley, Signed February 1, 1933*⁴²

The United States of America and the United Mexican States having taken into consideration the studies and engineering plans carried on by the International Boundary Commission, and specially directed

⁴² In English and Spanish; Spanish text not printed. Ratification advised by the Senate, April 25 (legislative day of April 17), 1933; ratified by the President, October 20, 1933; ratified by Mexico, October 6, 1933; ratifications exchanged at Washington, November 10, 1933; proclaimed by the President, November 13, 1933.

to relieve the towns and agricultural lands located within the El Paso-Juarez Valley from flood dangers, and securing at the same time the stabilization of the international boundary line, which, owing to the present meandering nature of the river it has not been possible to hold within the mean line of its channel; and fully conscious of the great importance involved in this matter, both from a local point of view as well as from a good international understanding, have resolved to undertake, in common agreement and cooperation, the necessary works as provided in Minute 129 (dated July 31, 1930)⁴³ of the International Boundary Commission, approved by the two Governments in the manner provided by treaty; and in order to give legal and final form to the project, have named as their plenipotentiaries:

The President of the United States of America, J. Reuben Clark, Jr., Ambassador Extraordinary and Plenipotentiary of the United States of America to Mexico; and

The President of the United Mexican States, Doctor José Manuel Puig Casauranc, Secretary of State for Foreign Affairs;

Who, after having communicated their respective full powers and having found them in due and proper form, have agreed on the following articles:

I

The Government of the United States of America and the Government of the United Mexican States have agreed to carry out the Rio Grande rectification works provided for in Minute 129 of the International Boundary Commission and annexes thereto, approved by both Governments, in that part of the river beginning at the point of intersection of the present river channel with the located line as shown in map, exhibit No. 2 of Minute 129 of said Commission (said intersection being south of Monument 15 of the boundary polygon of Córdoba Island) and ending at Box Canyon.

The terms of this Convention and of Minute 129 shall apply exclusively to river rectification within the limits above set out.

The two Governments shall study such further minutes and regulations as may be submitted by the International Boundary Commission and, finding them acceptable, shall approve same in order to carry out the material execution of the works in accordance with the terms of this Convention. The works shall be begun after this Convention becomes effective.

II

For the execution of the works there shall be followed the procedure outlined in the technical study of the project. The works shall be begun and shall be carried on primarily from the lower end, but at

⁴³ *Foreign Relations*, 1930, vol. III, p. 545.

the same time and for reasons of necessity works may be carried on in the upper sections of the valley.

III

In consideration of the difference existing in the benefits derived by each of the contracting countries by the rectification works, the proratable cost of the works will be defrayed by both Governments in the proportion of eighty-eight per cent (88%) by the United States of America and of twelve per cent (12%) by the United Mexican States.

IV

The direction and inspection of the works shall be under the International Boundary Commission, each Government employing for the construction of that portion of the work it undertakes, the agency that in accordance with its administrative organization should carry on the work.

V

The International Boundary Commission shall survey the ground to be used as the right of way to be occupied by the rectified channel, as well as the parts to be cut from both sides of said channel. Within thirty days after a cut has been made, it shall mark the boundaries on the ground, there being a strict superficial compensation in total of the areas taken from each country. Once the corresponding maps have been prepared, the Commission shall eliminate these areas from the provisions of Article II of the Convention of November 12, 1884, in similar manner to that adopted in the Convention of March 20, 1905 for the elimination of bancos.

VI

For the sole purpose of equalizing areas, the axis of the rectified channel shall be the international boundary line. The parcels of land that, as a result of these cuts or of merely taking the new axis of the channel as the boundary line, shall remain on the American side of the axis of the rectified channel shall be the territory and property of the United States of America, and the territory and property of the United Mexican States those on the opposite side, each Government mutually surrendering in favor of the other the acquired rights over such parcels.

In the completed rectified river channel—both in its normal and constructed sections—and in any completed portion thereof, the permanent international boundary shall be the middle of the deepest channel of the river within such rectified river channel.

VII

Lands within the rectified channel, as well as those which, upon segregation, pass from the territory of one country to that of the other, shall be acquired in full ownership by the Government in whose territory said lands are at the present time; and the lands passing as provided in Article V hereof, from one country to the other, shall pass to each Government respectively in absolute sovereignty and ownership, and without encumbrance of any kind, and without private national titles.

VIII

The construction of works shall not confer on the contracting parties any property rights in or any jurisdiction over the territory of the other. The completed work shall constitute part of the territory and shall be the property of the country within which it lies.

Each Government shall respectively secure title, control, and jurisdiction of its half of the flood channel, from the axis of that channel to the outer edge of the acquired right of way on its own side, as this channel is described and mapped in the International Boundary Commission Minute number 129, and the maps, plans, and specifications attached thereto, which Minute, maps, plans, and specifications are attached hereto and made a part of this Convention. Each Government shall permanently retain full title, control, and jurisdiction of that part of the flood channel constructed as described, from the deepest channel of the running water in the rectified channel to the outer edge of such acquired right of way.

IX

Construction shall be suspended upon request of either Government, if it be proved that the works are being constructed outside of the conditions herein stipulated or fixed in the approved plan.

X

In the event there be presented private or national claims for the construction or maintenance of the rectified channel, or for causes connected with the works of rectification, each Government shall assume and adjust such claims as arise within its own territory.

XI

The International Boundary Commission is charged hereafter with the maintenance and preservation of the rectified channel. To this end the Commission shall submit, for the approval of both Gov-

ernments, the regulations that should be issued to make effective said maintenance.

XII

Both Governments bind themselves to exempt from import duties all materials, implements, equipment, and supplies intended for the works, and passing from one country to the other.

XIII

The present Convention is drawn up both in the English and Spanish languages.

XIV

The present Convention shall be ratified by the High Contracting Parties in accordance with their respective laws, and the ratifications shall be exchanged in the City of Washington as soon as possible. This Convention will come into force from the date of the exchange of ratifications.

In witness whereof the Plenipotentiaries mentioned above have signed this Convention and have affixed their respective seals.

Done in duplicate at the City of Mexico this first day of February one thousand nine hundred and thirty-three.

[SEAL]	J. REUBEN CLARK JR.
[SEAL]	PUIG

[Minute No. 129 of the International Boundary Commission, United States and Mexico, July 31, 1930, and the Joint Report of the Consulting Engineers on Rio Grande Rectification, El Paso-Juarez Valley, July 16, 1930, with Annexes, are printed with this treaty in Treaty Series No. 864 and in 48 Stat. 1621.]

Treaty Series No. 864

The Mexican Minister for Foreign Affairs (Puig) to the American Ambassador in Mexico (Clark)

[Translation]

MEXICO, February 1, 1933.

DEAR MR. AMBASSADOR: In proceeding to the signature of the Convention relative to the rectification of the river channel of the Rio Grande in the El Paso-Juárez valley, it is understood by both Governments that the documents attached to the Convention, as provided in Article VIII thereof, are copies of Minute 129 of July 31, 1930 of the

International Boundary Commission, and of the report, maps, plans, and specifications attached to said Minute, and that in case any difference exists between such copies so attached to the Convention and their originals, the originals shall control.

There being nothing further to discuss, I again subscribe myself, as always, your affectionate, devoted, and faithful servant.

PUIG

Treaty Series No. 864

The American Ambassador in Mexico (Clark) to the Mexican Minister for Foreign Affairs (Puig)

MEXICO, February 1, 1933.

MY DEAR MR. MINISTER: Referring to your note of even date, in which you set out that in proceeding to the signature of the convention providing for the rectification of the river channel of the Rio Grande in the El Paso-Juárez valley, it is understood that the documents attached to the Convention, as provided in Article VIII thereof, are copies of Minute 129 (July 31, 1930) of the International Boundary Commission, and of the report, maps, plans, and specifications attached to that Minute, and that in case any difference exists between such copies so attached to the Convention and their originals, the originals shall control, I beg hereby to confirm such understanding.

Please accept [etc.]

J. REUBEN CLARK, JR.

711.12155/834

The American Ambassador in Mexico (Daniels) to the Mexican Minister for Foreign Affairs (Puig) ⁴⁴

No. 187

MEXICO, September 8, 1933.

EXCELLENCY: In order to facilitate the early exchange of ratifications of the Convention signed between Mexico and the United States for the rectification of the Rio Grande (Rio Bravo) in the Juárez Valley, dated February 1, 1933, and in order to establish clearly the understanding of both Governments with respect to the question of rights

⁴⁴ Transmitted to the Department by the Ambassador in his despatch No. 565, September 8, 1933; received September 13. A similar note in Spanish text was addressed by Sr. Puig to Ambassador Daniels.

In telegram No. 172, August 25, 1933, 5 p. m., the Ambassador in Mexico informed the Department that he had been "informed by Minister of Foreign Affairs that River Rectification Treaty will probably fail of ratification . . . unless Mexican landowners in Ciudad Juarez Valley can be convinced that Treaty will not deprive them of water rights which they now enjoy through the use of intake canals . . ." (711.12155/810.)

After some further correspondence (not printed) the exchange of notes of September 8 was agreed upon.

and use of waters of the Rio Grande (Rio Bravo) along the stretch covered by said Convention, the two Governments declare through this exchange of notes that the spirit and terms of the Convention of February 1, 1933, do not alter the provisions of Conventions now in force as regards the utilization of water from the Rio Grande (Rio Bravo) and that, consequently, these matters remain entirely unaffected and in exactly the same status as existed before the Convention of February 1, 1933, was concluded.

Accept [etc.]

JOSEPHUS DANIELS

RECOMMENDATION BY THE AMERICAN AMBASSADOR AND MEXICAN MINISTER FOR FOREIGN AFFAIRS THAT A JOINT COMMISSION BE APPOINTED TO STUDY MATTERS OF MUTUAL SELF-DEFENSE

711.1211/265

The Ambassador in Mexico (Clark) to the Secretary of State

[Extract]

No. 2255

MEXICO, February 7, 1933.

[Received February 17.]

SIR:

[The portion of this despatch here omitted recounts past incidents in American-Mexican relations.]

As I have stated, these various matters indicated a growing disposition of friendliness towards the United States, and a desire that closer and more intimate relations should exist between the two countries.

When Mr. James T. Williams, Jr.⁴⁵ was here in late August and early September of 1932, he had a conversation with President Abelardo L. Rodriguez, then Minister of War, in the course of which President made suggestions, on his own initiation, along the following lines:

President Rodriguez stated he felt the people of the United States did not appreciate that there would come a time when the United States would need Mexico (apparently in times of war); that he wished the people of the United States could be brought to understand this, with the idea of bringing about a better feeling between the two countries; that he hoped it might be possible to work out a plan by which in such time of need the United States could furnish to Mexico some naval tonnage, apparently to be used in joint naval operations. Commenting upon Mr. Williams' suggestion that the latter had read that Mexico intends to build some naval vessels, President Rodriguez replied that the vessels they had in mind in this connection were merely police boats and were not of the character of vessels that he was now discussing.

⁴⁵ Journalist, associated with Hearst newspapers.

When I made my first call upon President Abelardo L. Rodriguez on September 5, 1932, I referred (in the brief conversation which I had with him) to his conversation with Mr. James T. Williams, Jr., which Mr. Williams had reported to me, and stated that I fully agreed with the President in his suggestions; that I had given some thought to his expressions; and that I was prepared at some convenient time to take up, either directly with him or with the Minister for Foreign Affairs (who was present at the interview) the question which he had mentioned to Mr. Williams.

President Rodriguez indicated that he thought we might discuss the general question informally as "two friends", and stated that he would look to the Minister for Foreign Affairs in connection with the discussion of the matter.

On my way back from the National Palace to the Foreign Office, after the close of the interview with the President, I outlined briefly to the Minister for Foreign Affairs the statement which I understood President Rodriguez had made to Mr. Williams, and told the Minister that, as a matter of fact, since hearing of the conversation between the President and Mr. Williams, I had sketched out a few ideas in the rough which I thought might be properly discussed. I explained to the Minister that I was moving forward in a purely tentative way, without having consulted my Government, because I did not know what the attitude of the Mexican Government might be and what it might be possible to develop.

I stated that I had no idea that we should attempt at this time to make a formal treaty, but that I thought we might, proceeding on a strictly mutual basis—neither country asking what it would not grant—discuss such matters as: the possibility of our supplying some destroyers for them to use for police protection purposes on their coast, thus saving them the necessity, in their present financial condition, of building vessels for that purpose; and also the question of other cooperative defensive measures. I suggested it might perhaps ultimately be possible to exchange notes covering the matter. The Minister stated that he would be glad to talk the question over with me.

On October 11, 1932, I had another conversation with Minister Téllez. I recalled to the Minister's mind the conversation which I had had with him on September 5th on our return to the Foreign Office from the National Palace after I had paid my first call on President Abelardo L. Rodriguez. I referred specifically to that part of the conversation which dealt with the possibility of some kind of an arrangement which would cover a situation that might arise in case of war between the United States and a Pacific power, and to the need of Mexico to secure marine tonnage.

The Minister stated that it looked to him as though war between the United States and Japan was inevitable.

I said that I presumed a great many people had the same feeling, although personally I felt that such a war would be a crime, since it would be a war for which there would be no adequate cause. The Minister replied that there would be a commercial reason.

I then said that as to the marine tonnage, we had a considerable lot of it which had to be scrapped, and which I thought it might be possible to make some arrangement to have transferred to Mexico in some kind of way,—it might be by merely lending it to Mexico. I stated that the difficulty in the matter resulted from the provisions of the Limitation of Arms Treaty of 1922.⁴⁶ The Minister replied that the difficulty would arise from Article XII; that he had held long conversations with Mr. Hughes about that Article. I stated that I did not recall the number of the Article, but that it forbade us to transfer naval tonnage to other powers (the number of the Article is XVIII). I said to the Minister that I had been wondering whether or not he and I could not sign a memorandum in which we would agree to recommend to our respective superiors the appointment of a joint commission to consider certain questions involved in the subject matter of my conversation with him on the day we came back from the National Palace. I added that I would like to have something concrete before taking the matter up even initially with the Department of State, and that I would be glad to submit a memorandum along the lines I had in mind, if he cared to see it. The Minister stated that he would be glad to have the memorandum, but that before expressing any opinion on the feasibility of doing what I had in mind, he would talk the matter over with President Rodríguez and General Calles.

On October 13, 1932, I again saw Minister Téllez and handed to him a draft memorandum reading as follows:

"The undersigned agree to recommend to their respective superiors that the Governments of the United States and Mexico appoint an informal joint commission to study and report to the two Governments upon the following problems:

"(a) The placing by the Government of the United States at the disposal of the Government of Mexico of a certain amount of marine tonnage, to be agreed upon by the two Governments, for use and operation by Mexico for prevention of narcotic and other smuggling and for other police purposes.

"(b) Problems touching the use by each of the naval bases and harbors of the other for combined naval manoeuvres, and otherwise, and touching the interchange of military and naval officers for purposes of training.

"(c) Plans for the mutual passage of troops and of military and naval aircraft belonging to the one over the territory of the other, as also for measures of cooperation in case of armed disturbances and for the protection of border towns in case of armed uprisings threatening the peace and safety thereof.

⁴⁶ *Foreign Relations*, 1922, vol. 1, p. 247.

"(d) Regulations for the ferrying, in time of peace, of military and naval aircraft belonging to the one over the territory of the other, and for combined manoeuvres."

At a later date (which, as my recollection goes, was in early November 1932) I again brought up the matter with Minister Téllez, who stated that he had talked the matter over with General Calles and was meeting with some difficulty. He added that he would like me to go with him to see General Calles at some time and to discuss the matter myself with the General. I told Minister Téllez that I would be very happy to have a conversation with General Calles about the subject.

Before I had an opportunity again to take the matter up with Minister Téllez, the question of his resignation as Minister for Foreign Affairs became imminent, and he did in fact resign on December 20, 1932.

In his conversation with me in early November, Minister Téllez pointed out that it would not be possible for Mexico to discuss the matters covered by paragraph (c) of the draft above given, since it would involve the passage of American troops into Mexican territory. I briefly recounted to the Minister the incidents which had happened in 1911, 1914, 1919, and 1929 at the border points of Agua Prieta, Juarez, and Naco,⁴⁷ and stated that unless some arrangement could be made covering the matter, we might reasonably look for real difficulties. The Minister laughed and said he would leave me to discuss that matter with General Calles.

After Dr. Puig came in as Minister for Foreign Affairs (January 2, 1933) I confined my efforts entirely to closing the Convention for river rectification in the El Paso-Juarez valley.⁴⁸

The Department's records will show that in a conversation which I had with General Calles on February 6, 1932, the General brought up the question of the situation existing at that time between China and Japan, and raised the query as to whether or not the great powers would do something to protect China. He indicated at that time his apprehension with reference to Japan's course and his displeasure and anxiety over the aggressive spirit with which Japan was moving forward.

It will be recalled that I reported to the Department at the time (see Embassy's telegram number 35 of February 6, 1932) ⁴⁹ that General Calles had stated that in case of difficulties between the United States and Japan, the attitude of Mexico would be one of "benevolent neutrality", and I was assured that General Calles understood the exact meaning of the phrase "benevolent neutrality".

⁴⁷ See *Foreign Relations*, 1911, pp. 349-525 *passim*; *ibid.*, 1914, pp. 443-895 *passim*; *ibid.*, 1919, vol. II, pp. 555-565; and *ibid.*, 1929, vol. III, pp. 336-433 *passim*.

⁴⁸ *Ante*, p. 824.

⁴⁹ Not printed.

This conversation with General Calles gave point and impetus to the general consideration which I had for some time been giving to the situation which would arise between the United States and Mexico in the event of difficulty between the United States and Japan. I felt that real difficulty between the two countries must be visualized as a possibility, however much such a situation was to be deprecated, and that wisdom required that some account be taken of such an eventuality.

I was mindful, in this relation, of the following, among other matters: that Japan always strikes without waiting for the formalities of a notification that she intends to declare war; that there are Japanese fishing stations upon the western coast of Mexico, notably one at Magdalena Bay; that this fishing station possibly might be used as a base from which to sow submarine mines, even before we were advised that Japan intended to make war upon us; that we should be forced probably to ferry rapidly and immediately over Mexican territory numbers of airplanes to the Panama Canal; that General Calles might not be so influential in Mexican circles when such time came as he is now, indeed he might even be dead, and so we could not safely count upon his influence in behalf of "benevolent neutrality"; that the negotiations of an arrangement at the time might be impossible of immediate consummation, and yet the exigencies of our situation might require us immediately, and without Mexico's consent, to destroy any submarine mine base at Magdalena Bay, or at any other point on Mexico's coast, or to move our airplanes across Mexican territory, either of which operations, without Mexico's consent, would be a violation of Mexican sovereignty, and would tend to throw popular Mexican sentiment against us.

It seemed to me, therefore, that the sensible thing for the United States to do would be to try to negotiate beforehand some arrangement, formal or informal, which would enable us to act immediately if necessity should arise, without violating Mexican sovereignty.

As stated above, I had made no mention of the matter to Minister Puig.

At a luncheon which President Rodriguez and his wife gave to Mrs. Clark and myself on Tuesday, January 31, 1933, the question of the fishing industry on the west coast came up in the conversation at the table and the President informed me that the packing plant which the Japanese had at Magdalena Bay had been burned down, though the fishing station was still there. He stated further that the Japanese were attempting to secure another fishing plant upon the west coast of Lower California.

Last Thursday (February 2, 1933) I had opportunity, at an informal dinner party, to hold a personal and informal conversation with President Rodriguez. I again adverted to this general problem and said that I thought Minister Puig and myself might well sign a memo-

random agreeing to recommend to our respective Governments that each consider the making of some arrangement which would cover the general situation between the two countries in case of war with some third power. I called attention to the draft which I had left with Minister Téllez last October. In the course of my talk, I pointed out Mexico's inability to protect her own sovereignty from violation by Japan or any other great power.

President Rodriguez replied to the effect that he felt the United States would need Mexico in case of difficulties with Japan; that the suggestion I had made in October about the possibility of letting them have some destroyers was impracticable because Mexico was too poor even to maintain the destroyers in operation; that their recent contracts with Spain called merely for the building of some police and small transport boats; that he thought, however, that the United States ought to make some kind of an arrangement by which it would be possible for Mexico really to assist in case of trouble between the United States and Japan.

I told the President that I agreed with him as to the advisability of the two Governments reaching an understanding. I stated that I had not consulted the Department of State about the matter because I thought that all that could be done at the present time would be to arrange for some sort of conference at which the possibilities of the situation could be explored; that there was not time for me to consult the Department in detail about the matter; and that, therefore, I proposed that Dr. Puig and myself merely sign a memorandum suggesting that the two Governments appoint a Commission to give preliminary consideration to the question.

The President replied that he thought this should be done, and that it should be done immediately. He stated that he was seeing Minister Puig on the following day (Friday, February 3, 1933) and that he would talk with the Minister about it.

I told the President that I would submit to the Minister for Foreign Affairs, before he had his meeting with the President on the following morning, a draft of what I thought the two of us (Minister Puig and myself) might sign.

Accordingly I drew a memorandum, reading as follows, attaching to my draft a rough Spanish translation:

"The undersigned agree that they will recommend to their respective Governments that each Government appoint a small Commission, the two Commissions so appointed to meet together as soon as convenient. This joint Commission shall confidentially consider and discuss, in an informal, general, and preliminary way, matters connected with common measures of mutual self defense, and shall report thereon to their respective Governments for further study. The report so made shall impose no obligation upon, nor give any rights to, either Government, but if mutually acceptable to both Governments,

may give a basis for further development. It is understood that no publicity whatsoever will be given by either Government to the appointment of this Commission, nor to its work, nor to its report."

I then sought and secured an interview with Dr. Puig on the morning of February 3, 1933. I told him of my conversation of the preceding evening with the President and handed him a copy of my foregoing proposal. I made with Dr. Puig, as I had with the President, the point as to Mexico's inability to protect her own sovereignty against any great power.

Minister Puig stated that he was certain I felt no more keenly about the necessities of this situation than he felt; that he felt sure we would be in absolute agreement on the matter; and that he would take the matter up with the President and see me on the following day, February 4, 1933.

However, Minister Puig acted at once. When he returned from his *acuerdo* with the President, Minister Puig sent word to me by telephone and asked me to come to see him at 6 p. m. on the same evening (Friday, February 3rd). Accordingly, I went to the Foreign Office, as he requested, and he then handed back to me a memorandum modifying in one or two minor particulars, the terms of the memorandum which I had handed to him in the morning.

I gave this memorandum consideration and on the following morning returned to him a draft (English and Spanish), the English text of which reads as follows:

[The text of the draft here omitted is the same as the memorandum signed February 4, 1933, printed *infra*.]

The Department will observe that the full extent of my commitment is met by this sending by me of this memorandum to the Department as my recommendation. I carefully explained to the President and to the Minister for Foreign Affairs that I was dealing in this matter entirely upon my own responsibility; that I had not discussed the matter with the Department, but that I would urge the Department to act in accordance with the recommendation; and that I felt confident the Department would be glad to undertake an exploration of the possibilities of the situation.

At 12 noon on Saturday, February 4, 1933, we signed the attached memorandum, enclosure 1 hereto. A copy of this memorandum is being transmitted herewith as enclosure 2.

I earnestly urge that the Department favorably consider the recommendation made in this memorandum. I feel quite sure that the present temper of the Mexican Government is such that it will be possible for us to work out an arrangement which will obviate the necessity of our violating Mexican sovereignty in case of any untoward eventuality between ourselves and Japan, or any other power.

In connection with any mention of such an eventuality as a possible

war with Japan, I have always, in my conversations with the President and with the Minister for Foreign Affairs, stated that my only information regarding the possibility of any difficulties between the United States and Japan was derived from the press; that in my own view there was no real reason for any such an eventuality maturing between the two countries; and that I thought a war between the two countries under existing circumstances and conditions would be an unjustifiable tragedy.

I pointed out to the Minister for Foreign Affairs also that our historical attitude was against the making of alliances with foreign countries, and that I did not know how our Government would look at such a proposition as we were suggesting. Minister Puig stated that he entirely understood this point.

I have proceeded in this matter on the assumption that we should wish to make some arrangement or enter into some understanding with Mexico that would obviate the necessity of our violating Mexican sovereignty in case war should come between ourselves and some other power. I feel sure that the Mexican Government at the present time is entirely sympathetic with such a proposition. I appreciate that there will be difficult and fundamental problems to be considered in connection with making any such arrangement with Mexico. I would assume that we must avoid putting ourselves in a position where we might be under the necessity of going to war with Japan over some grievance Mexico might create, such as, for example, Mexico's treatment of Japanese on the west coast of a kind with her treatment of the Chinese.⁵⁰ But I believe the matter can be so handled and negotiated as to relieve us from that danger.

Minister Puig preferred not to appoint more than one member to such a Commission, although he stated that we might appoint more than one if we wished. I said that I assumed the matters would be handled by appointing one Commissioner and permitting him to have advisers. To this Minister Puig agreed.

From the standpoint of our relations with Mexico, quite independently of the question of mutual defense, the proposed arrangement should exert a beneficial effect; it should serve to allay any suspicion on the part of the present or a future Mexican Government that the United States harbors any hostile intention towards Mexico, a suspicion which, to judge from the tone of speeches, writings, and remarks of some Mexicans, has been at times prevalent in Mexico since the Tampico and Veracruz incidents in 1914 and the so-called "punitive expedition" in 1916.⁵¹

Should the Department determine to follow the recommendation, and pursue this matter, the outcome will probably depend, in good

⁵⁰ See pp. 839 ff.

⁵¹ See *Foreign Relations*, 1916, pp. 463-626 *passim*.

part, upon the character of the man sent to conduct the proposed explorations. Such a man as General McCoy⁵² would be able not only to get along with the Mexicans and come to some helpful conclusions, but would find it possible really to cement, if not enhance, the existing friendly relations. Furthermore, it is to be in mind that General McCoy understands the Japanese-Chinese situation. A man with less skill, sympathy, and knowledge than General McCoy could go far toward wrecking our existing friendly relationships.

Respectfully yours,

J. REUBEN CLARK, JR.

[Enclosure]

*Memorandum Signed by the American Ambassador (Clark) and the Mexican Minister for Foreign Affairs (Puig)*⁵³

The undersigned agree they will recommend to their respective Governments that each Government appoint a special commissioner to meet with the commissioner of the other country as soon as may be convenient to consider confidentially and to discuss in an informal manner, and in a general and preliminary way, matters connected with common measures for the mutual defense of both countries.

The special commissioners shall submit a report on the subject to their respective Governments for further and formal study of the question. The report submitted shall impose no obligation upon, nor give any rights to, either Government. But if mutually acceptable by both may serve as a basis for further development. It is understood that no publicity whatsoever shall be given by either Government to the appointment of its special commissioner, nor to the work of the Commission, nor to the report that might be submitted.

MÉXICO, February 4, 1933.

J. REUBEN CLARK, JR.
PUIG

711.1211/265

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Chief of the Division of Mexican Affairs (Johnson)

[WASHINGTON,] November 25, 1933.

MR. JOHNSON: Taking into consideration a large number of factors, and giving special weight to the fact that the tension between the United States and Japan has been substantially diminished during the past six months and seems in a fair way to further diminution,

⁵² Major General Frank R. McCoy, U. S. A. In 1932 General McCoy was a member of the League of Nations Commission of Enquiry (the Lytton Commission) sent to the Far East.

⁵³ In English and Spanish; Spanish text not printed.

I feel that we should take no steps whatever with regard to the matter reported upon in the papers hereunder ⁵⁴ except to keep the record of everything relating to it strictly confidential (but not to be forgotten).

S[TANLEY] K. H[ORNBECK]

EFFORTS TO STOP ILLEGAL ENTRY OF CHINESE NATIONALS FROM MEXICO INTO THE UNITED STATES

812.504/1363

The Secretary of State to the Ambassador in Mexico (Clark)

No. 855

WASHINGTON, November 22, 1932.

SIR: The Department refers to its telegram No. 28 of February 9, 6 p. m., 1932,⁵⁵ and to subsequent correspondence relating to the illicit entry of Chinese into the United States from Mexico. Since August 1931, American immigration officials on the American-Mexican border, particularly along the northern border of the Mexican State of Sonora, have been confronted with the problem of handling literally hundreds of Chinese who have illegally sought refuge in the United States because of the anti-Chinese legislation and agitation in the Mexican States of Sonora and Sinaloa. American immigration authorities have found that Chinese refugees could not be prevented by the usual imprisonment from seeking illegally to enter the United States as the refugees apparently preferred to run the risk of being imprisoned in the United States and being assured transportation to China, rather than to remain in Mexico. As a result it has become necessary for the American Government, at an expense running into many thousands of dollars, to deport these refugees to China.

During the present calendar year there has been an accumulation of evidence tending strongly to support the view that the authorities of the State of Sonora in their desire to drive out all Chinese have in all probability been a not unknowing party to the deliberate violation of the immigration laws of this country. . . .

The Department is aware of the practical difficulties which probably exist in the way of the federal government at Mexico City in adequately meeting this situation. These difficulties, however, in the view of the Department, do not relieve the Mexican Government from primary responsibility in the matter, even though such responsibility may be an indirect one. You have reported to the Department the transmittal of information on this question to the Mexican Minister for Foreign Affairs but up to the present there has apparently been no reply

⁵⁴ i. e., despatch No. 2255, February 7, from the Ambassador in Mexico, p. 830.

⁵⁵ Not printed.

received . . . The Department feels that the circumstances would justify strong representations to the Mexican Government with a request at least for a reply to those representations. The Department, however, desires to avoid raising an issue which might cloud the present good relations existing between the two countries or which might embarrass you in the very important negotiations which you are now conducting at Mexico City and, therefore, refrains from requesting you to make such representations unless you consider it wise and in the best interests of our country to do so. In the event that you should conclude that a vigorous pressing of the matter would be unwise the Department would greatly appreciate from you a detailed confidential report setting forth your views in the matter and your reasons for such views, together with any suggestions you may care to make as to how the situation might otherwise be met by this Government without violation of its own international obligations to the Mexican Federal Government. This report will be of great assistance to the Department in meeting the criticism which almost certainly will redound from the Congress because of the large expenditure of money that has necessarily been made as a result of this condition, created in Mexico, at a time when every effort is being made to effect economies in the Government.

Very truly yours,

For the Secretary of State:
WILBUR J. CARR

812.504/1375

The Consul at Mazatlán (Hinke) to the Secretary of State

No. 80

MAZATLÁN, March 3, 1933.
[Received March 9.]

SIR: I have the honor to report that the anti-Chinese campaign in Sinaloa, which received considerable notoriety during 1931, has been resumed during the past two months in the northern part of this State. An account of recent activities submitted to this office by the American Consular Agent at Los Mochis, Sinaloa, is enclosed with this despatch.⁶⁶

According to information recently furnished to the Consulate at Mazatlán by a member of the Chinese colony resident in this city, some eighty Chinese inhabitants of Guasave and other towns of Northern Sinaloa were taken into custody by the local Comités Nacionalistas and were sent by truck to the State of Nayarit. He stated that on arrival at Mazatlán his compatriots had only the clothes they wore when they were seized, that they were given no opportunity to take clothes or other possessions with them, and that they were suffering from exposure, cold and hunger.

⁶⁶ Not printed.

Vice Consul Earl W. Eaton of this office was informed by the Presidente Municipal of Tepic, Nayarit, with whom he conversed during the past week, that within the last fortnight 196 Chinese refugees from the States of Sonora and Sinaloa passed through Tepic bound for Jalisco and points in the interior of Mexico. The trucks were supplied with fuel and food was contributed to the refugees. More recently, some 15 Chinese, including women and children, left Ruiz, Nayarit, bound for Guadalajara. It is locally reported that in both instances the Chinese were placed under guard in Guadalajara while awaiting transportation to the interior of Mexico in order to prevent these Chinese from remaining within the State of Jalisco. The exact destination of these unfortunate individuals appears to be unknown.

According to officials of the State of Nayarit, Chinese residents of that State have not been molested, although the State authorities have been unable to give refuge to Chinese driven out of Sinaloa and Sonora. As already stated, however, they have been assisted in reaching Jalisco.

It is understood that the Chinese residents of Mazatlán have contributed a considerable sum of money for street repairs in this city, estimated as high as Pesos 5,000, but that otherwise they have not been molested during 1933.

Further developments of possible interest to the Department will be reported as conditions warrant.

Respectfully yours,

FREDERICK W. HINKE

812.504/1381

The Chargé in Mexico (Lane) to the Secretary of State

No. 2442

MEXICO, March 30, 1933.

[Received April 5.]

SIR: Referring to the Department's instruction number 961 of March 22, 1933,⁵⁷ I have the honor to state that yesterday I saw the Minister for Foreign Affairs and in the course of the conversation I brought up the matter of the deportation of Chinese from Mexico to the United States. I said that during my recent visit to Washington several officials of the Department of State had discussed this matter with me, pointing out the possibility of an investigation being instigated by Congress as to the reasons for our having had to defray the expenses of deporting Chinese to China who had been expelled from Mexico into the United States without the consent of the United States. I said that I felt sure the Minister would appreciate the embarrassing and serious nature of the situation which might arise if such a matter were aired in the press, and that I sincerely trusted that he would do

⁵⁷ Not printed.

everything in his power to prevent further deportations of Chinese to the United States from taking place.

Doctor Puig said that he fully appreciated our point of view, and that our complaints regarding the matter were entirely justified. He said that he had had several conversations with Senator Bátiz, who he said is the head of the anti-Chinese committee (see my despatch number 2342 of March 3, 1933),⁵⁸ and that he thought Senator Bátiz has now assumed a more reasonable attitude. He said that so far as he knew the persecution of the Chinese in Sonora had abated. He added that while there had been some anti-Chinese feeling in Sinaloa, the situation had not been so serious in that State.

Doctor Puig told me that notwithstanding the reports which he had of the improvement in the situation, he would take the matter up again with the President at the next presidential *acuerdo*, with a view to seeing what might be done.

I propose to discuss this matter with the Chinese Minister at the first opportunity.

Respectfully yours,

ARTHUR BLISS LANE

812.504/1392

*Memorandum by the American Ambassador in Mexico (Daniels) of a Conversation With the Mexican Minister for Foreign Affairs (Puig)*⁵⁹

MEXICO, May 17, 1933.

Under date of May 8, 1933, Ambassador Daniels informed His Excellency the Minister for Foreign Affairs, Doctor Puig Casauranc, that according to information received from official sources the United States immigration authorities at Nogales, Arizona, had apprehended two hundred ninety-seven Chinese nationals at that city during the month of March, 1933.

Since the delivery of Mr. Daniels' note, further information has been received regarding this situation.

It appears that from September, 1931, to the end of February, 1933, two thousand six hundred seventy-six Chinese nationals were deported from that district of the United States Department of Labor having headquarters at El Paso, at a total cost to the immigration appropriation of about three hundred sixty thousand dollars.

It is stated that, although few Chinese still remain in the State of Sonora, the volume of Chinese illegally entering the United States continues, and that many of the Chinese now arriving as refugees in the United States are in fact able to pay their passage to China and

⁵⁸ Not printed.

⁵⁹ Copy transmitted to the Department by the Ambassador in his despatch No. 81, May 17, 1933; received May 24.

are, strictly speaking, not refugees, but come from south of Sonora, taking advantage of the situation to secure a free trip to China.

It has been suggested that if the Chinese are in fact not refugees and are not forced to leave Mexico, the Mexican authorities may be willing to cooperate by refusing to permit these Chinese nationals to proceed to the border, unless they are in possession of documents visaed by American Consular Officers, this being the procedure which was previously adopted in the case of European aliens.

It has been suggested that Mr. William P. Blocker, present American Consul at Ciudad Juárez, be detailed to cooperate with the Mexican authorities in this matter, provided the Mexican Government has no objection.

812.504/1897

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 109

MEXICO, May 22, 1933.

[Received May 29.]

SIR: I have the honor to refer to my despatch number 81 of May 17, 1933,⁶⁰ and to inform the Department that during the conversation which I had requested of the Minister for Foreign Affairs today on other matters, he brought up the question of the illegal entry of Chinese nationals into the United States from the State of Sonora.

Doctor Puig said that Governor Calles of Sonora had spoken to him by telephone this morning and indicated that he was prepared to cooperate with the Federal Government with respect to the Chinese situation. Doctor Puig said that he was happy to note that his letter had apparently not irritated Governor Calles; but, he said, General Calles was now prepared to go even further than the Government had indicated. Governor Calles, according to Doctor Puig, wished to prohibit any Chinese from entering the State of Sonora, thus making it impossible for Chinese from other States to enter the United States by way of Sonora. Doctor Puig said he had advised Governor Calles that this was carrying the matter too far.

Doctor Puig confirmed the information transmitted to the Department in my despatch under reference, to the effect that Mr. Sierra⁶¹ had been instructed to discuss the memorandum which I left at the Foreign Office on May 17th with General Cabral, Acting Secretary of Gobernación. He said that he expected to have a definite reply from the Department of Gobernación shortly, and that he hoped there would be no further difficulty.

Respectfully yours,

JOSEPHUS DANIELS

⁶⁰ Not printed.

⁶¹ Manuel J. Sierra, Chief of the Mexican Diplomatic Bureau.

812.504/1398

The Ambassador in Mexico (Daniels) to the Secretary of State

No. 119

MEXICO, May 24, 1933.

[Received May 31.]

SIR: With further reference to the Department's instruction number 13 of May 8, 1933 ⁶² (file 812.504/1382), and to my despatches numbers 73 of May 16 ⁶² and 109 of May 22, 1933, regarding the illegal entry of Chinese nationals into the United States from Mexico, I have the honor to transmit herewith a copy of a letter dated May 20th ⁶² which I have received from Consul Blocker at Ciudad Juárez, giving his views as to the advisability of his making an inspection trip to the West Coast of Mexico.

In view of the fact that Doctor Puig has informed me that he has taken the matter up personally with the Governors of Sonora and Sinaloa, and in view of his assurances, as reported in my despatch number 109 of May 22, 1933, that efforts are being made to adjust the matter satisfactorily, I do not believe that further investigation in Mexico on the part of our authorities would be advisable, at least at the present moment.

I have notified the Minister for Foreign Affairs that according to advices which I have received from official sources (the Consulate at Nogales) two hundred and ninety-seven Chinese entered the United States illegally through Nogales in March, 1933, and that one hundred and five were apprehended by the immigration authorities at Nogales in April.

Respectfully yours,

JOSEPHUS DANIELS

812.504/1404

The Ambassador in Mexico (Daniels) to the Acting Secretary of State

No. 272

MEXICO, June 23, 1933.

[Received June 28.]

SIR: I have the honor to refer to my despatch number 185 of June 7, 1933, ⁶² regarding the illegal entry of Chinese nationals into the United States from Mexico, and to state that yesterday, in the course of conversation with the Minister for Foreign Affairs, I referred to my recent note on this subject (dated June 7th) ⁶² and expressed the hope that Doctor Puig might take some further action in the matter.

The Minister replied that he thought the situation had been adjusted, he having received word from Governor Calles of Sonora that . . . he had given orders to prevent the passage of Chinese nationals northward through Navojoa in the southerly part of the

⁶² Not printed.

State of Sonora, thus diminishing the possibility of Chinese entering the United States. Doctor Puig said that he had replied to Governor Calles that . . . in the circumstances he approved of what he had done. Doctor Puig said that he would look into the matter again and see what could be accomplished.

Respectfully yours,

JOSEPHUS DANIELS

812.504/1406

The Ambassador in Mexico (Daniels) to the Acting Secretary of State

No. 311

MEXICO, July 1, 1933.

[Received July 10.]

SIR: I have the honor to refer to my despatch number 272 dated June 23, 1933, regarding the illegal entry of Chinese nationals into the United States from Mexico and to enclose herewith a copy and translation of note number 11958 dated June 20, 1933, from the Foreign Office⁶³ in which it is stated that the Ministry of Gobernación has advised that it has issued definitive instructions to the Migration offices on the border to prevent this illegality. This note was received at the Embassy on June 29, 1933.

Respectfully yours,

JOSEPHUS DANIELS

812.504/1412

The Secretary of State to the Chinese Chargé (Yung Kwai)

WASHINGTON, September 1, 1933.

SIR: Reference is made to the Chinese Legation's note of June 20, 1932, to the Secretary of State,⁶³ stating that a sum of U. S. gold \$4,170.94 had been remitted by the Chinese Government to defray in part the necessary expenditures in connection with the repatriation of Chinese refugees into the United States from Mexico and that an attempt was being made to set aside another sum of silver \$50,000. Under date October 31, 1932, the Chinese Legation transmitted to the Department a check for \$4,170.94, the receipt of which was acknowledged in the Department's note of November 9, 1932,⁶³ stating that the check had been sent to the Secretary of Labor.

The influx of these Chinese refugees began in August, 1931, and continues unabated. The Department is now informed by the Department of Labor that up to July 1, 1933, the American Government

⁶³ Not printed.

has repatriated to China 4,317 Chinese refugees from Mexico at an expense of \$530,234.41 as follows:

<i>Fiscal Year</i>	<i>Number</i>	<i>Cost</i>
1932	2192	\$282, 274. 73
1933	2125	247, 959. 68
TOTAL	4317	530, 234. 41

The authorities of the American Government have from the beginning dealt leniently and sympathetically with these refugees but, in view of the mounting cost of their repatriation, I feel impelled to suggest to you that the Chinese Government should assume responsibility, financial and otherwise, for the repatriation to China of Chinese refugees from Mexico. I should be glad, therefore, to have you transmit this information to your Government at the earliest possible moment in order that it may take appropriate steps toward that end.

Accept [etc.]

For the Secretary of State:
WILBUR J. CARR

812.504/1421

*Memorandum by the Minister in China (Johnson) of a Conversation
With the Chinese Vice Minister for Foreign Affairs (Hsu Mo)* ⁶⁴

NANKING, November 11, 1933.

During the course of my conversation with Dr. Hsu Mo this morning, in regard to Customs controversies and other matters, I took occasion to invite to his attention the fact that the American Government had recently expended more than one-half a million gold dollars to repatriate Chinese citizens who had been expelled by the Mexican Government. Dr. Hsu Mo stated that he was grateful for this most helpful act on the part of the American Government and I replied that I hoped that he would not only be grateful but would bear this fact in mind when he was considering the matter of Customs controversies and the other items which I had brought to his attention in the hope that he would take action to assure fairer treatment for the American interests concerned. I deemed it expedient to wait until I return to Nanking in December to make the representations specified in the Department's instruction No. 1176 of September 1, 1933,⁶⁵ in regard to this matter.

⁶⁴ Copy transmitted to the Department by the Counselor of Legation in China (Peck) in his despatch of November 17, 1933; received December 18.

⁶⁵ Not printed.

812.504/1425

*Memorandum by the Minister in China (Johnson) of a Conversation
With the Chinese Vice Minister for Foreign Affairs (Hsu Mo)* ⁶⁶

NANKING, December 13, 1933.

I spoke to Mr. Hsu Mo about the large number of Chinese who had been repatriated by the United States at an expense to the United States of some \$500,000. I stated that my Government had asked me to express the hope that the Chinese Government would take over the responsibility of repatriating these unfortunate people.

Mr. Hsu Mo informed me that they had recently instructed the Legation at Washington to make a payment against the sums which had been paid out by the United States Government, and he said that they had also issued instructions to their Legation in Mexico City to stop the passage over the American frontier of further Chinese refugees.

He said that the Chinese Government was of course extremely grateful to the United States Government for what it had done for its nationals.

NELSON TRUSLER JOHNSON

⁶⁶ Copy transmitted to the Department by the Minister in his despatch No. 2449, January 5, 1934; received January 29.

NICARAGUA

DISCLAIMER BY THE DEPARTMENT OF STATE OF FURTHER RESPONSIBILITY REGARDING THE GUARDIA NACIONAL FOLLOWING THE EVACUATION OF NICARAGUA BY THE UNITED STATES MARINES¹

817.1051/808

Press Release Issued by the Department of State, January 2, 1933

Today the United States marines leave Nicaragua. No American armed forces will remain in that country, either as instructors in the constabulary, as a Legation Guard, or in any other capacity whatsoever. Their retirement at this time realizes in fact the intention announced by the Department of State in February, 1931, of withdrawing the marines following the presidential elections of 1932.

The American forces were sent to Nicaragua in 1926 because the Nicaraguan authorities stated that they were unable to protect Americans whose lives were endangered by the civil war then in progress, and that they desired the American Government to take appropriate steps to protect its citizens in Nicaragua. They were retained there after the termination of hostilities in accordance with the request of the Nicaraguan Government, and under the terms of the Tipitapa Agreement² which put an end to the civil war—first, that American forces organize and train a non-partisan constabulary, and secondly, that they assist in the supervision of the elections for the Presidency and the Congress. The United States accepted these obligations out of a desire to assist Nicaragua to terminate the disastrous civil war and to lay the foundations for permanent peace through holding free, fair and impartial elections.

On three successive occasions, in 1928, 1930 and 1932, national elections have been held under American supervision³ and under conditions which guaranteed to the voters of Nicaragua the opportunity to express their free and untrammelled choice. With the conclusion of the election on November 6 last, by which Dr. Sacasa was elected to the Presidency, the commitment of the United States in so far as

¹ For previous correspondence, see *Foreign Relations*, 1932, vol. v, pp. 852 ff.

² The Agreement between the Personal Representative of the President of the United States, Colonel Henry L. Stimson, and General Moncada, confirmed by Colonel Stimson's Note to General Moncada, dated at Tipitapa, May 11, 1927, *ibid.*, 1927, vol. iii, p. 345.

³ See *ibid.*, 1928, vol. iii, pp. 418 ff.; *ibid.*, 1930, vol. iii, pp. 636 ff.; *ibid.*, 1932, vol. v, pp. 785 ff.

electoral supervision is concerned has been fulfilled. That the Nicaraguan people have just cause to be proud of their sense of civic responsibility is amply demonstrated by the services performed by the Nicaraguans who presided at 247 of the 429 local electoral boards. These chairmen performed their duties in a manner that has not admitted of criticism or reproach. This fact combined with the admirable attitude of the party in defeat should augur well for the future of popular government in Nicaragua.

Both Nicaraguan political parties to the settlement which ended the civil war supported the disbanding of the old National Army, which had frequently been an instrument of undisguised political aggression. In its place, at the request of Nicaragua, American officers and enlisted men have organized and trained an entirely new and non-partisan force, the Guardia Nacional, grounded upon the fundamental precept of service to the country as a whole. During the past five years this force has developed into a well-disciplined and efficient organization with a high *esprit-de-corps*. The direction of the Guardia has now passed from American to Nicaraguan officers, and it is noteworthy that both political parties have agreed on their own initiative to a plan for insuring the non-political character of that organization. This act of turning over the direction of the Guardia to Nicaraguan officers marks the realization of the other major commitment which the United States assumed at Tipitapa.

The withdrawal of the American forces, therefore, follows upon the fulfillment of the above-mentioned obligations and marks the termination of the special relationship which has existed between the United States and Nicaragua. This country has considered it a privilege to assist Nicaragua and will always look with friendly sympathy and satisfaction upon the progress which Nicaragua through her own efforts will inevitably achieve in the future. The United States desires for Nicaragua, as for her sister republics in Central America, peace, tranquillity, well-being, and the just pride that comes from unimpaired integrity.

817.1051/808

The Acting Secretary of State to the Minister in Nicaragua (Lane)

No. 7

WASHINGTON, December 28, 1933.

SIR: On December 14, 1933, the Secretary of State, while at Montevideo,⁴ addressed the following telegram to the Department:

"I have forwarded to the Department with an air mail despatch dated December 11 a memorandum submitted to me by Leonardo

⁴ At the Seventh International Conference of American States; for correspondence, see vol. iv, pp. 1 ff.

Arguello⁵ concerning the desire of Nicaragua to reorganize the National Guard. Dr. Arguello appears to be of the opinion that the Department's consent to such action is necessary in view of an agreement signed in our Legation at Managua by the two candidates for the presidency in the last elections.

"The Nicaraguan delegation has now requested that a reply to the memorandum be transmitted to Dr. Arguello here if possible before the Conference ends but I have only felt able to inform them that the memorandum has been forwarded to the Department and have suggested that in view of the limited time it is improbable that the Department will be able to give the necessary study to the question upon which to base a decision in time to have the reply here before December 24, the probable date of the close of the Conference."

The Department, on December 16, 1933, replied to the Secretary of State as follows:

"The American Minister to Nicaragua witnessed the signature of the agreement between the Presidential candidates but the United States was not a party to the agreement and Nicaragua incurred no obligation to consult us concerning any action contemplated under it or with reference to it.

"While the Department will await the receipt of Dr. Arguello's memorandum with interest, it is its view that the proposed reorganization of the National Guard is not a subject on which it may appropriately express an opinion."

In the event the Legation is approached officially by the Nicaraguan Government on this subject, its attitude will, of course, be that expressed in the Department's telegram quoted immediately above.

The Department's attitude in this connection is consonant with the statement of the Secretary of State on the occasion of the withdrawal of the American armed forces from Nicaragua on January 2, 1933, to the effect that the turning over the direction of the Guardia Nacional to Nicaraguan officers marked the realization of the commitment which the United States had assumed at Tipitapa to organize and train a non-partisan constabulary, and that the fulfillment of this obligation and of the promise to supervise Nicaraguan elections marked the termination of the special relationship which had existed between the United States and Nicaragua.

The Department does not feel that it could comment officially on the proposed reorganization of the Nicaraguan Guardia any more than it could on the reorganization of the military forces of any other independent, sovereign nation. It is the Department's opinion, nevertheless, that the continued maintenance of a Guardia Nacional organized substantially as at present is important to the future peace and welfare of Nicaragua, and it believes that the maintenance of the non-

⁵ Nicaraguan Minister for Foreign Affairs.

partisan principle, in particular, constitutes one of Nicaragua's strongest guaranties of peace.

The Department has no objection to your expressing its opinion in this connection, orally and informally, to President Sacasa and to other responsible leaders in Nicaragua should those persons approach you in the matter.

Very truly yours,

For the Acting Secretary of State:

SUMNER WELLES

PANAMA

ADOPTION OF REMEDIAL MEASURES FOR THE CANAL ZONE IN CONSULTATION WITH PRESIDENT ARIAS OF PANAMA DURING HIS VISIT TO THE UNITED STATES

711.19/177

The Panamanian Legation to the Secretary of State

[Translation]

The President of the Republic of Panama believes that the questions pending with the Government of the United States and which have arisen from the relations created by the Treaty of November 18, 1903¹ are a matter of life or death for the Republic of Panama, and for that reason wishes to have a personal interview with the President of the United States, in order to make an appeal to his noble sentiments of justice and humanity and endeavor to find a means whereby better feelings may prevail between the two countries and more effective cooperation for the mutual benefit of the two peoples.

For this purpose, the President of Panama proposes to make a brief statement concerning the basic facts relating to the treaty of November 18, 1903, and the declarations of American statesmen of the time of its conclusion.

The President of Panama has in view two purposes:

The first is an agreement by virtue of which measures of a purely administrative character may be taken in connection with the administration of the Panama Canal, in regard to the following points:

1. Activities of the commissaries, of the railroad and of other establishments of the United States in so far as they affect the economic or commercial development of the Republic of Panama.

2. Sale of provisions, meats, beer and other Panamanian products, by Panama merchants for consumption or as supplies in Canal Zone.

3. Sale of cigarettes and other tobacco products in the Canal Zone by commissaries and other establishments of the United States.

4. The Panama Railway Company, its status as a private enterprise and its refusal to pay taxes in its capacity as such in connection with activities not connected with the operation of the railway and establishments connected therewith, in accordance with Article 18 of the Contract of 1867.²

5. Repatriation of indigent laborers who have come to Panama because of the work on the Canal.

¹ *Foreign Relations*, 1904, p. 543.

² See *ibid.*, 1868, pt. 2, p. 1034. The contract is not published.

6. Establishment of Panamanian customhouses in the ports of the Canal Zone, in conformity with the second paragraph of Article IX of the Treaty of 1903.

7. Radio communications within the Republic of Panama.

8. Construction of the highway from Alhajuela to Colon.

9. Jurisdictional acts of the authorities of the Zone in the cities of Panama and Colon.

The second purpose proposed by the President of Panama is that of attaining an agreement by virtue of which the following general bases shall be established for future negotiations:

First basis: That the Republic of Panama is disposed to contribute in every way possible to the efficient maintenance, operation, sanitation and protection of the Panama Canal.

Second basis: That the Canal Zone be used, occupied and controlled exclusively to maintain, operate, sanitize and protect the Canal already constructed.

Third basis: That in consequence Panama be left in a position to insure for her own development the commercial advantages inherent in the geographic situation of her territory, without interfering in any way, on the one hand, with the maintenance, operation, sanitation and protection of the Canal by the United States of America nor with the latter's judicial, police and administrative jurisdiction in the Canal Zone and without, on the other hand, the prosperity of Panama or its prestige as a nation being prejudiced or affected.

Fourth basis: That differences of an economic character which cannot be settled directly by the two parties shall be decided by arbiters whom they may designate.

WASHINGTON, September 21, 1933.

819.74/257

Memorandum by Mr. George R. Merrell, of the Division of Latin American Affairs, of a Conference With President Arias in the Secretary's Office, October 9, 1933

[WASHINGTON,] October 10, 1933.

[Present:] President Arias
The Secretary
The Secretary of War
Admiral Standley, Chief of Naval Operations
Assistant Secretary of State Caffery
General MacArthur, Chief of Staff
Mr. Edwin C. Wilson
Major Gruber
Commander Duncan
Mr. Merrell

The Secretary suggested that since all three departments were interested in the control of radio in Panama that that subject might be discussed first.

President Arias said that although the basic Treaty of 1903 did not mention radio, Panama recognized its obligation to help in the defense of the Canal in this respect but did not feel that it need be submitted to the indignity of not being able to control commercial radio in Panama when the defense of the Canal was not involved.

Admiral Standley stated that while the Army and Navy were perfectly willing that Panama should have her own broadcasting station, ship to shore traffic was another matter. He maintained that during war time the Navy must handle all radio traffic and that in peace time the radio traffic regarding the transiting of the Canal must be handled by our Government and that it was contrary to the best interests of the Canal to have duplication in the ship to shore traffic. Admiral Standley added that radio control was provided for by treaty.

President Arias said that this was not true and that he could ask some of the other gentlemen present on this point who were more familiar with the subject.

President Arias then said that the United States Government was engaged in commercial business in Panamanian territory in this respect and that he would appreciate it very much if the radio experts could study the matter further, considering war time and peace time restrictions in separate categories. He said that if they decided that such service was a real danger to the Canal, he would not ask that commercial interests be allowed to handle it.

Admiral Standley believed that it was necessary to maintain this service in peace time or otherwise the Navy, through lack of practice, would have difficulty in taking it over in war time.

President Arias said that he did not see why Panama should pay for the Navy's practice in this respect. He said that he hoped that some means could be found for regulating this matter so that during peace time the interests of neither country would be injured.

It was arranged to have Captain Hooper of the Navy Department call on President Arias at the White House this afternoon in an effort to explain the matter further to President Arias.

President Arias said that Panama had absolutely no objection to the Canal Zone employees buying goods at the cheapest price they possibly could. He frankly admitted that merchants in Panama would doubtless have taken advantage of persons residing in the Zone had the Commissaries not been provided for. He said that in his opinion, however, the cooperation of the Zone authorities in protecting and aiding Panamanian commerce was not as effective as it might be. He suggested that sales in the commissaries and post exchanges might be restricted to permanent employees, i. e. that sales not be made to Government employees and their wives who happen to be passing through the Canal or temporarily visiting the Isthmus. He also

suggested restriction of sales in the "silver" commissaries to permanent employees as compared with those employed for only a few months' time and that means should be found to protect bona fide "silver" employees in purchasing what they legitimately need and still protecting Panama from the introduction of goods bought beyond their needs. He also suggested the possibility of closing the "silver" commissaries. He cited the cases of West Indian families where two or three members of one family contrived to make purchases although it was against the regulations for more than one member of a family to have commissary privileges. He said that this situation arose through common law marital arrangements.

President Arias remarked that cigarettes were sold in commissaries, restaurants and post exchanges without excise tariffs for from four to six cents a package. He understood that the sale in the Zone was 4,400 packages per capita per year whereas in the United States, the greatest cigarette smoking country in the world, it was less than 800 per capita per year. He estimated that if the United States excise tax were applied to the cigarette sale in the Zone it would bring in an annual income of \$750,000 which is \$500,000 more than the annuity paid by the United States to Panama.

President Arias then mentioned various other activities of the Panama Railroad, such as laundries and cleaning and pressing establishments. He said that passengers aboard ships could send their suits to be pressed by Government establishments for 25 cents less than they could be pressed in Panama and that this was business which legitimately should belong to Panamanians. He also hoped that as many materials as practicable imported into the Zone could be purchased in Panama. He mentioned cattle particularly and said that he thought even if it was necessary to pay a little more for cattle there than elsewhere, the Zone authorities should buy Panamanian beef in order to foster the industry in that country in order to have a reserve supply in time of war.

President Arias stated that with the exception of about nine blocks, the Panama Railroad owned all of Colón and paid no taxes on the property even though this property was rented for profit and the sections occupied by Americans, were policed by Panama at no expense to the American Government. As a legal question Panama maintains that these lands have reverted to Panama and that they have not been delivered. He said that there were three different views on this subject:

1. That the lands owned by the Railroad would revert to Panama in 1966.
2. That all lands not used by the Railroad in 1904 reverted to Panama at that time.

3. That the property resulting from fills made on the Island, upon which Colón is built, by the United States and which are leased by the Railroad for more than \$200,000 per year could not be owned by the Railroad or the United States since the fills did not exist at the time of the contract between the Colombian Government and the Railroad.

President Arias explained the monopoly held by the Railroad for a highway across the Isthmus and said that Panama would like to obtain permission to build the portion of this highway from Colón to the Madden Dam in order to give employment to the large number of unemployed laborers on the Isthmus. He added that he understood that this matter was now being discussed in diplomatic correspondence.

The Secretary of War asked President Arias if Panama felt that we were exceeding our treaty rights.

President Arias replied that his Government did not take this view—that it was simply a question of adopting more liberal administrative measures.

The Secretary said that the three departments would be pleased to consider these matters and that he might later call on President Arias for further consultation.

President Arias said that he would be available at any time.

G[EOERGE] R. M[ERRELL]

711.19/175

The Secretary of State to President Roosevelt

WASHINGTON, October 13, 1933.

MY DEAR MR. PRESIDENT: I beg to report as hereinafter on the result of discussions with President Arias of Panama and the War and Navy Departments regarding points raised by President Arias.

I attach hereto as Enclosure 1 a copy of an informal and personal memorandum submitted on October 11 by President Arias containing his requests for "remedial measures of an administrative character".

This memorandum was at once taken up with the War and Navy Departments. With the exception of Item 10 relating to radio activities in Panama all of the other eighteen items come under the jurisdiction of the War Department. I attach hereto, as Enclosure 2, a letter dated October 12,³ received from the Secretary of War commenting on the requests made by President Arias.

I wish to set out as hereinafter my own views on the "remedial measures" proposed by President Arias.

1. *Restriction of the list of articles to be sold by the Commissaries, especially in luxuries and tourist goods.*

³Not printed.

I agree with the Secretary of War that there is no reason why so-called luxury articles should not be sold by the commissaries to employees of the American Government, provided every possible precaution is taken to prevent contraband trade.

As regards tourist goods the Secretary of War is willing to take such action as is necessary to prohibit sales of such goods for resale on ships. I am in full agreement with this but feel that there are other categories of articles the sales of which should also be prohibited for resale on ships. This will be mentioned later in connection with Item 12.

2. *Measures tending to avoid the sale of articles at prices which are "below normal" such as in the case of cigarettes, which do not pay excise tax, sugar and other articles.*

It appears that cigarettes sold in the commissaries do not pay the United States excise tax. The theory apparently is that the Canal Zone is foreign soil and therefore cigarettes exported to the Canal Zone are not subject to our excise tax. The Panamanian objection is that these cigarettes are sold by the commissaries at such a low price that they thus encourage smuggling into Panama, to the consequent detriment of Panamanian trade in these articles. I am unable to see any reason why United States Government employees living in the Canal Zone should be able to buy cigarettes at a lower price because of the exemption from taxation than Government employees living in this country. I recommend that the President of Panama be informed that this matter will be given careful study in order to determine whether it appears advisable to seek congressional legislation.

3. *Measures tending to prevent the passing of goods by employees to persons not entitled to the Commissary privilege, such as:*

a) Prohibition to employees to purchase goods amounting to more than 50 per cent of their salaries;

b) Sale to contractors and their employees to be restricted to those who devote all of their time to work in the Canal who operate exclusively in the service of the Canal and who actually reside in the Canal Zone.

I recommend that the Panamanian request under (b) above be granted.

I also recommend that special instructions be issued to the Governor of the Canal Zone to take all possible measures to prevent contraband activities on the part of those entitled to commissary privileges. Since a record is made of all sales to each person having commissary privileges it should be readily possible to check up from time to time and determine whether or not any Canal Zone employee is spending more than his salary in the commissaries. The Panamanian authorities would thus feel that this rule would discourage commissary pa-

trons from purchasing for friends not entitled to commissary privileges.

4. *Instructions to clerks in the Commissaries to report persons who purchase more than they reasonably need.*

President Arias' request under this item would be met by the suggestion last made under Item 3.

5. *That restaurants and club houses in the Canal Zone be limited to accept as customers Canal employees only.*

6. *That admission to Moving Picture houses in the Canal Zone be paid by means of coupons so that non-employees of the Canal should not be admitted.*

The Secretary of War asks for further consideration of these items by the Governor of the Canal Zone. My recommendation is that we agree at once with the request of President Arias on these two items. I can see no reason why the restaurants, clubhouses and moving picture houses in the Canal Zone should admit non-employees of the United States Government in competition with similar activities in Panama. Of course, these centers furnish opportunity for social meetings between Panamanians and Americans, but if the Panamanian Government desires that these centers be limited only to employees of the American Government, I think we should agree.

7. *Abrogation of the clause which binds lessees or contractors of the restaurants to purchase their provisions from or through the Commissaries.*

I recommend that we agree with President Arias' request. There seems no reason why the restaurants should not be free to purchase their provisions wherever they desire.

8. *Restriction of the services of the United States hospitals and dispensaries in the Canal Zone to United States employees, excepting only emergency cases.*

I recommend we accept President Arias' request. These hospitals are operated by the Canal Zone Government with officers of the Medical Corps of the United States Army. They are open to the general public and so compete with Panamanian hospitals. I recommend that they should be open only to United States Government employees and to the officers, crews and passengers of ships transiting the Canal who need emergency treatment.

9. *Discontinuance of beer gardens on the Canal Zone and measures tending to avoid that beer be imported and sold by the Commissaries at prices below normal, by reason of the exemption of the excise tax on beer exported to the Canal Zone.*

My recommendation on this item is that beer sold in the Canal Zone should be made to pay the same excise tax as beer sold in the United

States. This matter is similar to that of the sale of cigarettes mentioned in Item 2 above.

10. *Suspension of radio activities by the Navy within the jurisdiction of the Republic of Panama.*

(This will be treated after Item 18.)

11. *Assistance for repatriation of aliens who went to the Isthmus attracted by the Canal work and have become a charge to Panama.*

The War Department heartily endorses this measure and so do I. The Secretary of War has authorized the Governor to submit an estimate of appropriation for \$150,000 for the purpose of giving this assistance. I propose to cooperate with the Secretary of War when this matter is presented to Congress.

12. *Suspension of sales to ships.*

I recommend there should be a limitation on sales to ships by the commissaries. Obviously the commissaries should be allowed to sell certain articles essential to shipping, such as fuel and food supplies. As noted under Item 1 above, the Secretary of War will prohibit sales of tourist goods for resale on ships. In addition I recommend that the sale of other articles not necessary to shipping transiting the Canal should be prohibited, or that a reasonable surtax be placed on such sales. There was once a surtax of 25 per cent on these sales, and Panamanian merchants then felt they could compete. At present members of the crews of ships purchase articles of clothing, cigarettes, et cetera. I see no reason why, for instance, a foreign sailor on a foreign ship transiting the Canal should be allowed to purchase cigarettes from the United States Government at prices cheaper than American citizens can purchase them in the United States.

13. *Suspension of the bonded warehouse business created under the system known as "Canal Zone for orders".*

The Governor of the Canal Zone has agreed to meet President Arias' request only in part. I see no reason why the request should not be granted in full, and what is in effect a bonded warehouse business apparently run for the convenience of American merchants be abandoned by the Canal Zone administration.

14. *Suspension by the Panama Railroad Company of all business transactions with persons or concerns other than the United States Government or the Panama Canal and payment of taxes on such business as is not connected with the operation of the railroad and its dependencies.*

I agree with the Secretary of War that it will be necessary for the Panamanian Government to be more specific in its request for suspension by the Panama Railroad Company of certain business transactions. I understand, however, that the Panama Railroad Company operates laundries, pressing establishments, et cetera, which perform

services for persons other than employees of the United States Government. I think this should be prohibited and orders to this effect could be issued at once.

The Treaty is clear as to exemption from taxation of the Panama Railroad Company.

15. *Delivery to Panama by the Panama Railroad Company of the property located in the city of Colon which is not owned or in the possession of the Company and which is not required in the construction or operation of the Canal.*

I agree with the Secretary of War that no disposition can be made of these lands except by Act of Congress.

16. *Allotting to the Republic of Panama of sites in the ports of Balboa and Cristobal for the establishment of houses and guards for the proper control by the Republic of importations and immigration into the jurisdiction of Panama.*

Article IX of the Treaty of 1903 gives the Republic of Panama "the right to establish in such ports and in the towns of Panama and Colon such houses and guards as it may deem necessary to collect duties on importations destined to other portions of Panama and to prevent contraband trade". I recommend that we inform President Arias that we are prepared to make the necessary arrangements whenever the Republic of Panama so desires.

17. *Arrangements tending to insure the prompt construction by the Republic of Panama of the road between Alhajuela and Colon.*

This matter of granting consent to the Republic of Panama for the construction of a section of the proposed trans-Isthmian highway was referred to the War Department some time ago. I recommend that we allow Panama to build this road with a minimum of restrictions as regards width, materials used, route, et cetera, required by the military necessities of protection of the Canal. There is a view that granting this permission to Panama will require a formal treaty subject to ratification. We should reach a decision on this point at as early a moment as possible and expedite our reply to Panama so that Panama can begin this work at an early date. Panama has a serious unemployment problem and wants to put men to work on this highway.

18. *Arrangements tending to avoid the unjustified exclusion of Panamanian products from the Canal Zone, such as foodstuffs, provisions, cattle, building materials and other articles which are used or consumed in the said Zone.*

The Secretary of War states that Title III of the Treasury and Post Office Appropriation Act for the fiscal year ending June 30, 1934, approved March 3, 1933,⁴ may prevent the purchase of some

⁴47 Stat. 1489.

of the products of Panama. It seems to me that the provisions of Title III of the Act in question give enough latitude to the heads of Departments so that the Secretary of War, through administrative orders, could direct that purchases of Panamanian articles be made. If not, I recommend that the necessary legislation be sought.

10. *Suspension of radio activities by the Navy within the jurisdiction of the Republic of Panama.*

Although there is no reference to the control of radio in the Treaty of 1903, it has been considered by the United States that its general provisions give the United States the right to control radio in Panama. The Navy Department has insisted upon such control. In 1914, the President of Panama issued a decree giving the United States complete control of radio in Panama,⁵ but in December, 1930, this decree was revoked.

After consultation with the War and Navy Departments, the State Department instructed the Legation at Panama on November 23, 1931,⁶ to state to the Panamanian Government:

"That while the United States has no desire unnecessarily to restrict the development of radio facilities in the Republic of Panama, it feels that a measure of control by the United States over radio communications therein sufficient to prevent the efficient protection, defense, or operation of the Panama Canal from being endangered, is essential. . . ."

With these preliminary remarks the Legation was instructed to endeavor to arrive at an agreement similar to the provisions on radio contained in the unratified treaty of 1926.⁷

The proposed agreement specified that private radio installations could not be erected or operated *in the Republic of Panama* without licenses granted by the Panamanian Government after approval by the United States, and that such installations, which were to be owned and operated by Americans and Panamanians only, were to be subject to inspection, censorship, control or closure by Panama, the inspectors to be furnished by the United States. These installations were to be closed without delay by Panama upon the request of the United States, when in the latter's opinion they were detrimental to the safety or operation of the Canal and its defenses, or if the terms of their licenses were violated. Panama was also obliged to consult with the United States before erecting or operating installations of her own.

⁵ *Foreign Relations*, 1914, p. 1051.

⁶ Instruction not printed.

⁷ *Foreign Relations*, 1926, vol. II, p. 833.

The Legation was not successful in obtaining such an agreement, Panama considering the provisions desired by the War and Navy Departments much too stringent. President Arias has now confirmed this view. He states that for Panama to enter into a formal agreement with these provisions would be humiliating to Panama's sovereignty and would place Panama as a "vassal" state in the eyes of other countries. He states, however, that he is willing to give us in fact everything we require in the way of control over radio in Panama for the protection of the Canal. It seems to be largely a matter of form in which the question is handled. If it is not possible to reach any agreement with President Arias while here, I recommend that the matter be discussed further with him by our Minister in Panama.

As regards particularly "ship to shore" service the Navy Department contends that it is absolutely necessary for the Navy to handle all radio communications of this nature, not only messages relating to Canal transit, but also commercial messages, stating that otherwise there would be interference with Naval radio, loss of revenue to the Navy Department, lack of opportunity to train Naval radio personnel, and danger to the defense of the Canal because during the "twilight" period preceding war there would be reluctance on the part of the United States Government to censor or control commercial radio stations in Panama. Panama, on the other hand, states her willingness, in time of war or threatened hostilities, to give the United States complete control over radio, but in time of peace objects to the Navy Department dictating what kind of radio service Panama can have in her own territory. At one time the Navy Department maintained that the use in Panama of ordinary broadcast receiving sets was inimical to the defense of the Canal. Furthermore, it is only recently that the Navy Department has agreed that broadcasting could be undertaken in Panama without jeopardizing the Canal. This Department is not convinced by the arguments of the Navy Department that "ship to shore" service operated by private interests under appropriate safeguarding provisions would endanger the operation or defense of the Canal, and does not see how this Government can further take the position that Panama cannot have such service. Engineers of the Federal Radio Commission have stated that from a technical standpoint such service should not materially interfere with naval radio operations.

I therefore recommend that at such time as it appears possible to make a satisfactory arrangement with Panama concerning radio control, we agree that no special restrictions be placed on "ship to shore" service with the exception of that relative to transiting the Canal.

President Arias recommends that certain declarations be made that may be considered "as the bases of the relations between Panama and the United States in so far as the Panama Canal and the Canal Zone territory are concerned". The three specific declarations which he proposes seem to me undesirable in certain respects from the point of view of this Government, and I therefore propose that they be rephrased as follows:

1. Now that the Panama Canal has been constructed, the provisions of the Treaty of 1903 between the United States and Panama contemplate the use, occupancy and control by the United States of the Canal Zone for the primary purpose of the maintenance, operation, sanitation and protection of that Canal.

2. In view of that primary purpose the Republic of Panama is recognized as entitled, as a sovereign nation, to take advantage of the commercial opportunities inherent in its geographical situation so far as that may be done without prejudice to the maintenance, operation, sanitation and protection of the Panama Canal by the United States of America, which is earnestly desirous of the prosperity of the Republic of Panama.

3. The Government of the United States would sympathetically consider any request which the Government of Panama might make for the solution by arbitration of any important question which might arise between the two Governments and may appear impracticable of decision by direct negotiations, provided that such question is purely economic in its nature and is not so closely associated with the maintenance, operation, sanitation and protection of the Canal as to involve possible derogation from the rights granted to the United States by the Treaty of 1903.

Faithfully yours,

CORDELL HULL

[Enclosure]

*Memorandum Submitted by President Arias of Panama,
October 11, 1933*⁸

REMEDIAL MEASURES OF AN ADMINISTRATIVE CHARACTER

1. Restriction of the list of articles to be sold by the Commissaries, especially in luxuries and tourist goods.

2. Measures tending to avoid the sale of articles at prices which are "below normal" such as in the case of cigarettes, which do not pay excise tax, and other articles.

3. Measures tending to prevent the passing of goods by employees to persons not entitled to the Commissary privilege, such as:

a) Prohibition to employees to purchase goods amounting to more than 50% of their salaries;

⁸ Marked "Personal and Unofficial."

b) Sale to contractors and their employees to be restricted to those who devote all of their time to work in the Canal who operate exclusively in the service of the Canal and who actually reside in the Canal Zone.

4. Instructions to clerks in the Commissaries to report persons who purchase more than they reasonably need.

5. That restaurants and club houses in the Canal Zone be limited to accept as customers Canal employees only.

6. That admission to Moving Picture houses in the Canal Zone be paid by means of coupons so that non-employees of the Canal should not be admitted.

7. Abrogation of the clause which binds lessees or contractors of the restaurants to purchase their provisions from or through the Commissaries.

8. Restriction of the services of the United States Hospitals and dispensaries in the Canal Zone to United States employees, excepting only emergency cases.

9. Discontinuance of beer gardens on the Canal Zone and measures tending to avoid that beer be imported and sold by the Commissaries at prices below normal, by reason of the exemption of the excise tax on beer exported to the Canal Zone.

10. Suspension of radio activities by the Navy within the jurisdiction of the Republic of Panama.

11. Assistance for repatriation of aliens who went to the Isthmus attracted by the Canal work and have become a charge to Panama.

12. Suspension of sales to ships.

13. Suspension of the bonded warehouse business created under the system known as "Canal Zone for orders".

14. Suspension by the Panama Railroad Company of all business transactions with persons or concerns other than the United States Government or the Panama Canal and payment of taxes on such business as is not connected with the operation of the railroad and its dependencies.

15. Delivery to Panama by the Panama Railroad Company of the property located in the city of Colon which is not owned or in the possession of the Company and which is not required in the construction or operation of the Canal.

16. Allotting to the Republic of Panama of sites in the ports of Balboa and Cristobal for the establishment of houses and guards for the proper control by the Republic of importations and immigration into the jurisdiction of Panama.

17. Arrangements tending to insure the prompt construction by the Republic of Panama of the road between Alhajuela and Colon.

18. Arrangements tending to avoid the unjustified exclusion of Panamanian products from the Canal Zone, such as foodstuffs, provisions, cattle, building materials and other articles which are used or consumed in the said Zone.

OTHER REMEDIAL MEASURES

That certain declarations be made that may be considered as the bases of the relations between Panama and the United States in so far as the Panama Canal and the Canal Zone territory are concerned, such as for instance:

1. That the Canal Zone is to be used, occupied and controlled exclusively for the maintenance, operation, sanitation and protection of the Canal already built;

2. That as a consequence of the above the Republic of Panama shall be placed in a position to insure, for her own development, the commercial advantages inherent to her geographical location, without, on the one hand, affecting the maintenance, operation, sanitation and protection of the Canal by the United States of America, nor her judicial, police and administrative jurisdiction in the Canal Zone, nor, on the other hand, prejudicing or affecting the prosperity of Panama or her prestige as a nation;

3. That the Government of the United States favors the solution by means of arbitration of such questions of an economic nature which may arise and which cannot be decided directly by the two Governments.

711.19/175

The Secretary of State to the Minister in Panama (Gonzalez)

No. 3

WASHINGTON, October 20, 1933.

SIR: With reference to the recent visit of President Arias of Panama to President Roosevelt there is transmitted herewith a copy of a memorandum itemizing the points agreed to by the two Presidents, together with a press release of October 17, 1933,^a giving the joint statement of the two Presidents summarizing the results of their conversations. There is also transmitted herewith a copy of a self-explanatory memorandum of Assistant Secretary Caffery of October 16, 1933, recording two statements of President Roosevelt in this connection.

With reference to item 8 of the first mentioned memorandum you are informed that President Arias advised President Roosevelt that he would fully consider the question of controlling radio in Panama by a joint board similar to the Aviation Board after he returned to Panama. It is therefore assumed that he will desire to discuss this matter with you.

Very truly yours,

For the Secretary of State:
JEFFERSON CAFFERY

^a Department of State, *Press Releases*, October 21, 1933, p. 218.

[Enclosure 1]

*Memorandum of Points Agreed to by President Roosevelt and
President Arias*

1. *Restrictions on sales to ships by commissaries.*

- a) Sales of "tourist goods" for resale on ships will be prohibited.
- b) Sale of articles required by shipping transiting the Canal, such as fuel, food supplies, et cetera, will be continued.
- c) Sale of other articles to ships will be prohibited, or a reasonable surtax, such as, say 25%, will be placed on such sales.

2. The question of measures to avoid sale at prices "below normal" of such articles as cigarettes and beer, which do not pay excise taxes, will be sympathetically studied in an effort to meet Panama's views.

3. Special instructions will be issued to take all possible measures to prevent contraband activities on the part of those entitled to commissary privileges.

Sales to contractors and their employees will be restricted to those who operate exclusively in the service of the Canal, and who actually reside in the Canal Zone.

4. The use of restaurants and clubhouses in the Canal Zone will be limited to officers and employees of the United States Government and of the Panama Railroad Company and their families.

5. Admission to moving picture houses in the Canal Zone will be limited to officers and employees of the United States Government and of the Panama Railroad Company and their families.

6. The clause binding lessees or contractors of the restaurants to purchase their provisions from or through the commissaries will be abrogated.

7. The services of the United States hospitals and dispensaries in the Canal Zone will be restricted to officers and employees of the United States Government and of the Panama Railroad Company and their families, excepting only emergency cases.

8. *Radio.*

It is suggested that consideration be given to the creation by Panama of a Radio Board on the lines of the present Aviation Board. This Board would have, say, six members, of whom three would at all times be designated by the United States Government, for appointment by the President of Panama. This Board would issue regulations for the licensing, inspection, et cetera, of radio stations in the Republic of Panama. Appropriate measures would be agreed to for the limitation of licenses to Panamanian and American companies, and for appropriate safeguarding provisions to prevent endangering the operation or defense of the Canal Zone. The United States, under such conditions, would agree that no special restrictions be placed on "ship to shore" service with the exception of that relative to transiting the Canal.

9. *Assistance for repatriation of aliens who went to the Isthmus attracted by the Canal work and have become a charge on Panama.*

The United States desires to lend its assistance to this end. The Secretary of War has authorized the Governor of the Canal to submit an estimate of appropriation for \$150,000 for the purpose of giving this assistance. Panama, on her part, will of course also give financial assistance, and will enact the necessary measures to prevent admission to Panama of aliens who would become a charge, and also to prevent the readmission of such aliens as may be repatriated.

10. The local delivery into the Republic of Panama and the Canal Zone from "Hold for Orders" goods in the warehouses in the Canal Zone will be suspended.

11. The request made by President Arias for the suspension by the Panama Railroad Company of "all business transactions with persons or concerns other than the United States Government or the Panama Canal" is not clear. If specific points in this matter will be submitted, the matter will be given careful consideration.

In the meanwhile, measures will be taken so that services offered by the Panama Railroad Company such as the washing and pressing of clothes will be restricted to officers and employees of the United States Government and of the Panama Railroad Company and their families.

12. Article IX of the Treaty of 1903 gives the Republic of Panama "the right to establish in such ports and in the towns of Panama and Colon such houses and guards as it may deem necessary to collect duties on importations destined to other portions of Panama and to prevent contraband trade". The United States Government is prepared to make the necessary arrangements to this end whenever the Republic of Panama so desires.

13. *Desire of the Republic of Panama to construct links in the proposed trans-Isthmian highway.*

The United States will make every effort to expedite its reply to Panama on this question, and to find a way to comply with Panama's desire.

14. It appears that Title III of the Treasury and Post Office Appropriation Act for the fiscal year ending June 30, 1934, approved March 3, 1933, which requires the purchase of articles, materials and supplies mined, produced, and manufactured in the United States, with certain exceptions, has been interpreted in such a manner as to prevent the purchase of some of the products of Panama. Consideration will be given to the matter in order to determine whether enough latitude does not exist, under the provisions of Title III of the Act in question, so that the United States, through administrative orders, could direct that purchases of considerable quantities of Panamanian articles be

made. If this does not prove to be the case, consideration will be given to seeking appropriate remedial legislation.

In addition to the foregoing specific points dealing with administrative matters, the United States agrees to the statement of certain general principles forming the bases for the relations between Panama and the United States in so far as the Canal Zone is concerned:

1. Now that the Panama Canal has been constructed, the provisions of the Treaty of 1903 between the United States and Panama contemplate the use, occupancy and control by the United States of the Canal Zone for the purpose of the maintenance, operation, sanitation and protection of that Canal.

2. In view of that purpose the Republic of Panama is recognized as entitled, as a sovereign nation, to take advantage of the commercial opportunities inherent in its geographical situation so far as that may be done without prejudice to the maintenance, operation, sanitation, and protection of the Panama Canal by the United States of America, which is earnestly desirous of the prosperity of the Republic of Panama.

3. The Government of the United States would sympathetically consider any request which the Government of Panama might make for the solution by arbitration of any important question which might arise between the two Governments and may appear impracticable of decision by direct negotiations, provided that such question is purely economic in its nature and does not affect the maintenance, operation, sanitation and protection of the Canal.

[Enclosure 2]¹⁰

Memorandum by the Assistant Secretary of State (Caffery)

[WASHINGTON,] October 16, 1933.

(1) President Roosevelt remarked, after reading numbered paragraph 4 of the attached memorandum (and obviously the remark attached to numbered paragraph 5 also) that, of course, Panamanian guests could be invited to restaurants, clubhouses, et cetera, in the Canal Zone by persons entitled to the use of said restaurants, clubhouses, et cetera; all bills, however, must be paid by the persons entitled to use the restaurants, clubhouses, et cetera. President Arias accepted President Roosevelt's observations as a matter of course.

(2) President Roosevelt stated to President Arias that the State Department would make a study of the matter of the Panama Railroad's not paying taxes on any of the property it owns, with the object of ascertaining whether the Railroad should not pay taxes on at least some of its properties.

J[EFFERSON] C[AFFERY]

¹⁰ Filed separately under 711.19/175a.

INDEX

INDEX

- Agreements. *See* Treaties, conventions, etc.
- American Chamber of Commerce. *See under* Brazil: Exchange restrictions.
- Argentina, attitude concerning U. S. policy of nonintervention in Cuban revolution and nonrecognition of provisional governments, 409, 413, 476, 485, 491, 529; concerning Mexican proposal for appeal to Cuba for protection of foreign interests, 413, 421, 429, 434-435
- Arrest. *See* Haiti: Waiving of immunity for American treaty official.
- Batista, F. *See* Cuba: Revolution: Céspedes, Carlos Manuel de, interim government, etc., and under Grau San Martín regime: National government.
- Belgium, compensation agreement with Chile, 114, 134
- Blumhardt, *U. S. vs. Mexico*, case cited, 413
- Bolivia, 1-12
- Arrangement with United States for reciprocal extension to consular officers of privilege of free importation of articles for personal use, 9-12
- Extraordinary war taxes created by Bolivian law of *Sept. 30, 1932*, question of application to foreign individuals and corporations, 1-9
- Information concerning passage of law, 1-2, 2-3
- Patino Mines, interests of, 1, 3-4, 5; payment of tax, 6-7
- Representations by foreign governments for exemption of their nationals under treaty provisions:
- Germany, 4, 7
- Great Britain, 2, 3, 4, 5, 7-9; Bolivian position, 7-8
- U. S. action:
- Consideration of, 1, 2, 3, 4-5
- Request for exemption of American companies and citizens, 5, 6, 7; Bolivian position, 7, 9
- Treaties with—
- Great Britain, commercial treaty of *1911*, cited, 3, 8
- United States (*1858*), cited, 1, 2, 3, 4, 5, 6, 7, 9
- War taxes. *See* Extraordinary war taxes, *supra*.
- Bondholders Protective Council, Foreign, representative of American bondholders in regard to settlement of external debt questions in Brazil, 82, 86, 87, 90, 92, 92-94, 95, 96; in Colombia, 255, 256-257, 258, 259; in Dominican Republic, 637, 639, 663-664
- Boundary questions. *See* Mexico: Convention with United States.
- Brazil, 13-102, 420-421, 422, 434, 437, 474, 476, 483-484, 484-485, 491, 529
- Cuban revolution, Brazilian attitude concerning U. S. policy of nonintervention and nonrecognition of provisional governments, 420-421, 422, 434, 437, 474, 476, 483-484, 484-485, 491, 529
- Exchange restrictions, efforts of Department of State and private firms to secure equitable treatment for American interests, 30-75
- Agreement between Banco do Brasil and certain American firms: Conflict of interests with American bondholders, and bondholders' request for intervention of Department of State, 60-61; attitude of Department of State, 61
- Failure of Brazilian Bank to fulfill its commitments, and efforts of Supervisor of Exchange of Federal Reserve Bank of New York on behalf of American exporters, 68, 69, 70, 74, 74-75
- Negotiations and arrangements, 56-57, 61, 62-63, 65
- Text, draft, 57-59
- U. S. position, 54-55, 60-61, 62
- American Chamber of Commerce for Brazil, suggestions and actions concerning exchange problem, 38-40, 43-44; attitude of Department of State, 41, 44
- Coffee:
- Export policy of Brazilian Government, 31, 32, 33, 35, 36, 37
- Schroeder coffee loan (São Paulo), *1930*, 32, 34, 36, 37, 77, 78, 83, 84, 99
- U. S. tax, possibility of imposition of, 31, 43, 45-46, 49, 50; statement by U. S. Secretary of State concerning, 50
- Efforts of Supervisor of Exchange of Federal Reserve Bank of New York on behalf of Ameri-

Brazil—Continued

Exchange restrictions—Continued

can exporters: Discussions and correspondence with Department of State, 50-51, 51-52, 70-72; negotiations with regard to failure of Banco do Brasil to fulfill its commitments under terms of its agreement with certain American firms, 68, 69, 70, 74, 74-75; proposal for U. S. loan to Brazil for an exchange fund for the purpose of paying for imported merchandise, 51, 53-54

Foreign loans:

British loans (*see also* Rothschild loan, *infra*), servicing of, 31, 32, 33-34

French loans, servicing of, 32, 34, 37

Rothschild loan, liquidation of old loan and arrangement for new loan to be used in alleviating accumulated commercial exchange situation, 30, 34-35, 37, 41-43, 47, 50, 55-56, 65

Schroeder coffee loan (São Paulo), 1930, 32, 34, 36, 37, 77, 78, 83, 84, 99

U. S. loans:

Brazilian desire to obtain fifty million dollar credit in United States as an exchange fund: Proposal by Supervisor of Exchange of the Federal Reserve Bank of New York, 51, 53-54; request by Brazilian Government, and U. S. refusal, 66-68, 72-73

Servicing of, 32, 33, 34, 34-35, 35, 36, 47

France: Action with regard to blocked milreis, and Brazilian retaliatory measures, 63-66, 68, 68-69, 70; loans to Brazil, servicing of, 32, 34, 37

Instructions and reports, 30-38, 40-41, 44-45

U. S.-Brazilian exchange of declarations, *May 23*: Conversations between U. S. officials and Brazilian delegation leading to, 45-50; nondiscrimination in allotment of exchange to American interests, Brazilian assurance and confidential message concerning, 48-49; statement by U. S. Secretary of State concerning good offices to obviate possibility of a U. S. coffee tax, 50

Brazil—Continued

Loans. *See* Exchange restrictions: Foreign loans, *supra*.

Servicing of Brazilian federal, state, and municipal debts, U. S. efforts to secure equitable treatment for American creditors, 75-102

American bondholders' representatives: American Committee on Brazilian State and Municipal Loans, memorandum of *May 17* regarding loan payment proposals, 89, 90; Foreign Bondholders Protective Council, 82, 86, 87, 90, 92, 92-94, 95, 96

Brazilian declaration of *May 23* (*see also* Exchange restrictions: U. S.-Brazilian exchange of declarations, *supra*), cited, 82, 96, 100

Plan for the adjustment of Brazilian federal, state, and municipal debts:

Consultations with foreign advisers concerning:

Kent, Fred I., Supervisor of Exchange, Federal Reserve Bank of New York, 80-81, 81, 82-83, 87-88; mission to Brazil, Brazilian suggestion for, and attitude of Department of State, 87-88, 90

Niemeyer, Sir Otto, Bank of England official, 75-76, 77, 81, 87, 89

Text, draft, 77-79

U. S. representations and criticisms, 79-80, 82, 83-87, 88-89, 89-92, 93, 94; Brazilian position, 82-83, 87-88, 88, 91-92, 93, 94, 95-102

Trade agreement with United States, negotiations for:

Arrangements for exploratory conversations, 13-23

Draft text submitted by United States, 23-28; efforts to expedite Brazilian consideration of draft, 29-30

Status of, report concerning, 28-29

Caffery, Jefferson, 286, 367, 371, 521, 523, 526, 538, 543, 544, 545, 546

Central American General Treaty of Peace and Amity. *See* El Salvador.

Céspedes, Carlos Manuel de, interim government of. *See under* Cuba: Revolution.

Chamber of Commerce, American. *See* Brazil: Exchange restrictions: American Chamber of Commerce.

- Chile, 103-216, 413, 421, 434-435, 476, 485, 526, 529, 684
- Cosach (Nitrate Corporation of Chile). *See* Liquidation, *infra*.
- Cuban revolution, Chilean attitude concerning U. S. policy of nonintervention and nonrecognition of provisional governments, 421, 434, 476, 485, 526, 529; concerning Mexican proposal for appeal to Cuba for protection of foreign interests, 413, 421, 434-435
- El Salvador, question of Chilean recognition of Martinez regime, 684
- Exchange restrictions, U. S. efforts to secure equitable treatment for American interests, 103-153
- American commercial firms, private arrangements with Chilean Government for release of blocked funds, 135-137
- Compensation agreements between Chile and foreign governments, U. S. request for equivalent treatment for American interests, 104, 105, 108, 109, 111, 114, 117-121, 129-130, 132-135; Chilean attitude, 117, 118-119, 120, 130
- Problems affecting American interests, U. S. representations, and discussions with Chilean officials concerning, 103-117
- Provisional agreement between the United States and Chile concerning the allotment of foreign exchange, supplementing the provisional commercial agreement of *Sept. 28, 1931*:
 Recommendation by U. S. Ambassador for a limited trade agreement with Chile to provide exchange for American business interests, 122-129, 131-135; attitude of Department of State, 130
- U. S. proposal for: Negotiations with Chile, 137-141, 142-153; text, draft, 141-142
- Liquidation of Cosach (Nitrate Corporation of Chile), and reorganization of Chilean nitrate industry, 154-216
- Cancellation of decree of incorporation and termination of security of 60-pesos charge by Chilean Government, 154-155, 157, 158, 159, 160, 161, 162, 162-163, 190-191; protest by company official, and Chilean reply, 155, 158
- Chile—Continued
- Liquidation of Cosach, etc.—Con.
 Conference of American creditors with Chilean Government officials, 161
- Great Britain:
 Attitude toward Chilean action, 155, 160
 Memorandum of conversation between British bankers and Chilean Minister of Finance, 156-157
 Representations, 163, 169, 191, 193, 199, 215; Chilean reply, 170, 184, 186
 Submission by Chilean Government of draft plan for reorganization of nitrate industry, 186
- Liquidating Commission, 154, 155, 182-184; text of resolution of *Apr. 7, 183-184*
- Plan for reorganization of the nitrate industry:
 Draft texts, 180-182, 187-190, 199-212; memorandum and draft plan submitted by Chilean Government to British, German, Netherlands, and U. S. Governments, 186-190
- Legislative action leading to adoption of, 213-216
- Modifications and developments in, 185, 191, 192-193, 196, 197, 197-199, 213-214, 215
- Protest by certain American banking firms against impairment of rights of holders of Anglo-Chilean Debentures: Information concerning, 193-196, 197, 212-213; text, 194-196; U. S. representations on behalf of American interests, 197, 212-213
- Representations by foreign governments concerning protection of interests of their nationals and repudiation by Chilean Government of its international obligations:
 Germany, 163, 169; Chilean reply, 170, 184, 186
 Great Britain, 163, 169, 191, 193, 199, 215; Chilean reply, 170, 184, 186
 Netherlands, 169; Chilean reply, 170, 184, 186
- United States:
Aide-mémoire of *Mar. 24, 167-168*; Chilean reply, 170-179

Chile—Continued

Liquidation of Cosach, etc.—Con.

Representations by foreign governments—Continued

United States—Continued

Conversation with Chilean Chargé, 164-165

Recommendations and reports by U. S. Ambassador, and views of Department of State, 157-158, 159-160, 162-164, 165, 166-167, 168-171, 184, 185-186, 190-192, 196, 197, 212-213, 215

Nitrate industry. *See* Liquidation of Cosach, *supra*.

China, U. S. negotiations with Chinese Government concerning funds for repatriation of Chinese refugees from Mexico, 845-847

Claims. *See under* Mexico.

Coffee:

Brazil:

Export policy of Brazilian Government, 31, 32, 33, 35, 36, 37

Schroeder coffee loan (São Paulo), 1930, 32, 34, 36, 37, 77, 78, 83, 84, 99

U. S. coffee tax, possibility of imposition of, 31, 43, 45-46, 49, 50; statement by U. S. Secretary of State concerning, 50

Colombia, attitude toward possible U. S. coffee tax, 221-222, 227, 240, 246, 250

Colombia, 217-265

Debt, external, question of suspension of service on, 254-265

Discussions concerning plan for payment of interest on Colombian external funded debt and possible refunding operation, 254-256, 257

Foreign Bondholders Protective Council as representative for American bondholders, question of, 255, 256-257, 258, 259

Legislative action on debt and budget bills:

Reports concerning, 257-258, 259, 259-260, 260-263, 264-265; signature of Debt Act, 264

U. S. desire for use of influence by President Olaya to oppose measures for suspension of debt service, 254-256, 257, 258-259, 263-264

Trade agreement with United States, unperfected, 217-254

Attitude of Colombian industrialists, 221-222

Colombia—Continued

Trade agreement with United States, unperfected—Continued

Negotiations:

Arrangements for exploratory conversations at Washington, 217-220, 222, 225-226

Coffee, Colombian attitude toward possible U. S. tax on, 221-222, 227, 240, 246, 250

Discussions: Initiation of conversations, press statement concerning, 222; meeting of experts, 238-241

Draft agreements:

First U. S. draft, 222-225; Colombian observations and counterdraft, 226-234

Redraft, U. S. 235-238

Submission of new draft *art. 4* by Colombia, information concerning, 241-242, 243-244

Petroleum imports into United States, Colombian interest in increase in, and U. S. policy concerning, 243, 244-246

Signature: Recommendation by Department of State to President Roosevelt, 246-248; statement issued to the press concerning, 248

Text signed *Dec. 15*, 249-254Unperfected reciprocal trade agreement with United States. *See* Trade agreement, *supra*.

Commercial treaties:

Bolivia, commercial treaty with Great Britain (1911), cited, 3, 8; with United States (1858), cited, 1, 2, 3, 4, 5, 6, 7, 9

Chile. *See* Chile: Exchange restrictions: Provisional agreement.

Costa Rica-Italy, proposed treaty of commerce and navigation, U. S. informal suggestions with respect to the canal provisions, 266-269

Commissions, committees, etc.:

Bondholders' committees:

American Committee on Brazilian State and Municipal Loans, 89, 90

Foreign Bondholders' Protective Council, representative of American bondholders in regard to settlement of external debt questions in Brazil, 82, 86, 87, 90, 92, 92-94, 95, 96; in Colombia, 255, 256-257, 258, 259; in Dominican Republic, 637, 639, 663-664

International Boundary Commission. *See* Mexico: Convention with United States.

- Commissions, committees, etc.—Con.
 Liquidating Commission of the Nitrate Corporation of Chile, 154, 155, 182–184; text of resolution of *Apr. 7*, 183–184
- Communism. *See* Cuba: Revolution: Communist influence.
- Conferences:
 Codification of International Law, 1930, 174, 175, 177
 Monetary and Economic Conference, London, *June 12–July 27*, 45, 48–49, 50, 85, 86, 96–97, 124, 127, 130, 131, 132, 291
 Seventh International Conference of American States, Montevideo, *Dec. 3–26*:
 Allusions to, 96*n*, 150, 669, 670, 680, 681–682, 822, 883–884
 Haitian proposals to American delegation concerning control of Haitian finances, 768, 769, 770–771, 772, 773, 774–778; U. S. position, 776
- Consular officers. *See* Diplomatic and consular officers.
- Cosach. *See* Chile: Liquidation of Cosach.
- Costa Rica, 266–269, 393, 690
 Cuban revolution, U. S. explanation concerning nonintervention policy, 393
- El Salvador, Costa Rican denunciation of Central American Treaty of 1923, and proposed recognition of Martínez regime, 690; U. S. views, 690
- Treaty of commerce and navigation with Italy, proposed, U. S. informal suggestions with respect to canal provisions, 266–269
- Cuba, 114, 270–588
 Batista, F. *See* Revolution: Céspedes, Carlos Manuel de, interim government of, *and under* Grau San Martín regime: National government, *infra*.
 Céspedes, Carlos Manuel de. *See* Revolution: Céspedes, Carlos Manuel de, interim government of, *infra*.
 Chile, compensation agreement with, 114
 Financial situation, and plans for adjustment of, 546–588
 Chase National Bank agreements with Cuban Government:
 Contract of *June 27*:
 Action by banking groups as concession to Cuban economic crisis:
 Request by President Machado, 571–572
 Cuba—Continued
 Financial situation—Continued
 Chase National Bank agreements with Cuban Government—Con.
 Contract of *June 27*—Continued
 Action, etc.—Con.
 Suggested arrangement for payment of civilian employees' salary arrears, 575
 U. S. Ambassador's recommendations, and views of Department of State, 570–571, 573; request for delay in bankers' concessions pending political developments, and subsequent withdrawal of request upon declaration of policy by President Machado, 572, 573–574, 575
 Negotiations, 574–575
 Synopsis of contract, 576–577
 Public Works loan, contract of *Dec. 10, 1932* for servicing of: Arrangements, 558–562; U. S. attitude, 560, 561–562
 Participation of oil companies, 559–560, 562, 563
 Passage of law by Cuban legislature sanctioning contract, 563
 Funding of floating debt, proposals for, and U. S.-Cuban discussions based on question of treaty violation:
 Internal bond issue, proposed:
 Information concerning, 546–548
 U. S. request for advance notification of any Cuban decision to issue new obligations, 548; Cuban attitude and reply, 549–550
 Recommendations by U. S. Ambassador concerning, 554–557
 Treasury notes to cover accumulated budget deficits, proposed, 550–554, 563–564, 566–567, 567–569
 Moratoriums: Foreign debt, proposed moratorium on, 564–566; private debts, partial moratorium on, 567
 U. S. assistance:
 Recommendation by U. S. Ambassador for relief of Cuban financial situation, 578–580; opinion of U. S. Treasury Department concerning certain proposed measures, 582–583

Cuba—Continued
 Financial situation—Continued
 U. S. assistance—Continued
 U. S. financial experts: Cuban request for, 581-582; preliminary report on Cuban finances, 583-588
 Grau San Martín, Ramón. *See* Revolution: Grau San Martín regime, *infra*.
 Machado, Gerardo. *See* Revolution: Machado government, *infra*.
 McBain, Prof. Howard Lee. *See* Revolution: Crowder Electoral Code: Invitation, *infra*.
 Nonintervention policy of United States. *See* Revolution: U. S. policy, *infra*.
 Revolution, and U. S. efforts to aid in restoring political peace, 270-546
 Anti-American propaganda:
 Accusation of complicity against U. S. Embassy in revolt of officers in National Hotel, and U. S. denial, 418-419, 426-427, 485-486, 487, 515-516; Seigle letter, 485-486, 515-516
 Attacks against United States by Cuban political groups, 408, 427-428, 522-523
 False reports of American intervention and landing of U. S. marines, 480, 511, 512
 Seigle letter. *See* Accusation, *supra*.
 Student organizations, attitude of, 438-439, 441-442, 442-443, 450, 459, 513-514, 521
 Batista, F. *See* Céspedes, Carlos Manuel de, interim government of, and under Grau San Martín regime: National government, *infra*.
 Céspedes, Carlos Manuel de, interim government of, and Army revolt led by Sergeant Batista:
 Creation of Cabinet and efforts to maintain constitutional government, 358-359, 361, 362, 363, 364-365, 365-367, 369-371, 371-373, 374-375, 376, 378-379; U. S. official relations, establishment of, 362, 370
 Establishment of revolutionary government:
 Appointment of Batista as Colonel and Chief of Staff, 410, 414
 Deposing of officers, and assumption of powers of government by Executive Committee of Five, 379, 380, 381-382, 384, 399-400

Cuba—Continued
 Revolution, and U. S. efforts to aid in restoring political peace—Con.
 Céspedes, Carlos Manuel de, interim government of—Continued
 Establishment of revolutionary government—Continued
 Officers' attempted counter-revolt:
 Accusation of complicity against U. S. Embassy, and U. S. denial, 418-419, 426-427, 485-486, 487, 515-516; Seigle letter, 485-486, 515-516
 Siege of National Hotel Headquarters and surrender of officers, 407, 410, 411-412, 420, 428, 431-432, 456, 463-468, 469-470, 476, 517, 526-527; intervention of Diplomatic Corps to insure safety of officers, 463-464, 464-466, 476, 517
 Resignation of Céspedes Cabinet, 384
 Return to legal government, negotiations between political leaders and revolutionary groups, and unofficial mediation of U. S. Ambassador, 383-384, 384, 387, 387-388, 390-392, 396-398, 400, 400-401, 403, 405-407, 410-411, 414; decision to restore presidential form of government, 414
 Student Council, threat to arrest political leaders, 400
 U. S. temporary financial assistance, recommendations for, 360-361
 Committee of Five. *See* Céspedes, Carlos Manuel de: Establishment of revolutionary government: Deposing of officers, *supra*.
 Communist influence, 399, 401, 408, 414-415, 431, 441, 451, 462, 470, 475, 478, 512, 542, 544
 Crowder Electoral Code: Cited, 280, 281; invitation from Cuban Government to Prof. Howard Lee McBain to formulate recommendations for amendment of, 299-300, 301-302, 305, 322, 323, 332
 France: Indefinite postponement of proposed visit of French naval vessel to Cuba, 432-433, 437; killing of French national by disorderly forces, 401-402; recognition of Cuban *de facto* government, French attitude concerning, 529

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

Grau San Martín regime:

Designation of Grau San Martín as Provisional President, and formation of Cabinet, 416, 424, 425-426; program, 436
Military mission for training of Cuban Army officers, arrangements with Mexican Government for, 484

National government of concentration, efforts of various political leaders to establish:

Batista, influence of, 445, 447, 451-452, 470-472, 475, 476, 500, 538

Declarations of opposition to Grau San Martín by political groups, 419-420, 422-423, 425, 431

Discussions of political leaders with government representatives, and ultimate collapse of negotiations, 438, 439, 440, 442-443, 443-445, 446, 446-447, 448-449, 449, 450, 451-452, 454, 455, 456, 456-457, 457, 459, 459-460, 461-462, 472, 476, 476-478, 478-479, 479-481, 482, 483, 485, 487-491, 491, 492-494, 494-496, 496-497, 497-498, 499, 500, 501-503, 504, 505, 505-507, 508-509, 509-511, 511-512, 512-513, 514-515, 515, 522, 527, 529-533, 533-536, 536-538, 538, 539, 539-540, 541-543, 544, 545; unsuccessful attempt at mediation by Uruguayan Minister, 460-461, 527, 530, 532, 535, 537-538, 539, 540, 541, 545, 546

Revolutionary outbreaks, 417, 449, 450, 454, 456, 458, 470, 514, 517, 518-520

Sterling, Marquez, reception by President Roosevelt as a private citizen, 545

Student organizations, activities of, and withdrawal from government, 431, 438, 441, 473, 475, 491-492, 496-497, 505, 512, 513; anti-American propaganda, and conversations with U. S. representatives concerning, 438-439, 441-442, 442-443, 450, 459, 513-514, 521

Great Britain: Property damage, 345; recognition of Cuban *de facto* government, British attitude concerning, 529

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

Machado government, increasing opposition to and overthrow of:

Background on developments since assumption of office by President Machado, 279-286

Constitutional guarantees and freedom of the press, U. S. recommendations concerning restoration of, and action by President Machado, 288, 303, 318, 322-323, 325-326, 327-328

Disturbances, and efforts of Government to suppress, 270-274, 274-277, 297; U. S. representations concerning shooting of Cuba Co. guards by order of Cuban Army officer, 292-293, 294

Ferrara, Orestes, replacement as Secretary of State by General Herrera, 291, 296

Prisoners, political, release of and amnesty for, 318, 323, 326, 327, 328-329

University of Cuba, plans for reorganization of, 298-299, 301

U. S. good offices in negotiations between Government and opposition groups leading to constitutional reforms and resignation of President Machado:

Cooperation of opposition groups, arrangements for, 274, 292, 295-296, 297-298, 301, 302, 303-304, 306-310, 311-313, 314-315; noncooperation and revolutionary program of General Menocal, 274, 295, 297, 303-304, 307, 307-308, 309, 309-310, 313, 318-319, 320, 323, 329

Delegates, appointment of, 313-314, 316

Latin American countries, proposed participation of, 315-316; Mexico, attitude of, 350-351

Mediation of U. S. Ambassador: Acceptance by President Machado of offer of, 287-289, 296-298, 299-301, 314; proceedings, reports of, 316, 317-322, 334

Message of *July 1* from President Roosevelt to the Cuban people: Cited, 316, 317, 331, 452; suggestions by Ambassador Welles, 292, 310; text, 311

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

Machado government—Continued

U. S. good offices in negotiations, etc.—Continued

Plan for constitutional reform:

Efforts to secure cooperation of President Machado, 302-303, 305, 316, 323-325, 326, 327, 328, 329, 330, 332-334, 334-335, 336-345, 346-350, 351-356; resignation of President Machado upon Cuban Army's withdrawal of support, 356-359

Safe departure of President Machado and family from Cuba, 360, 362, 376; of other members of Machado government, 362

Threat of assassination of U. S. Ambassador to invoke U. S. intervention, 345-346

Mexico:

Military mission for training of Cuban Army officers, Cuban arrangements with Mexican Government for, 484

Participation of Latin American countries in mediation negotiations between Machado government and opposition groups, attitude concerning, 350-351

U. S. policy of nonintervention and nonrecognition of provisional governments, Mexican attitude concerning, 394-395; Mexican proposal to ABC powers for appeal to Cuba for protection of foreign interests, and views of ABC powers, 401, 412-414, 416, 420-421, 428-429, 434-435, 437

U. S. vessels, Mexican views as to advisability of withdrawal from Cuba, 429, 430

Nonintervention policy of United States. *See* U. S. policy, *infra*.

Protection of American and other foreign lives and property:

Accidental wounding and death of an American citizen during shooting in National Hotel incident, 463, 469

British property, damage to, 345

French national, killing of by disorderly forces, 401-402

Spain: Protest at treatment of Spanish citizens, 345; reported dispatch of U. S. vessel for protection of Spanish lives and interests in ac-

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

Protection of American and other foreign lives, etc.—Con.

accordance with treaty obligations, and U. S. explanation, 543, 544-545

U. S. property and business interests: Decrees affecting, 534, 536; endangering of, 376-378, 428, 441, 518

U. S. representations concerning shooting of Cuba Co. guards by order of Cuban Army officer, 292-293, 294

U. S. vessels: Dispatch to Cuba, 363, 366, 379, 380, 382, 385-386, 387, 389, 391, 393, 403-404, 422, 427, 433-434, 443; Mexican view as to advisability of withdrawal from Cuba, 429, 430; reported dispatch for protection of Spanish lives and interests in accordance with treaty obligations, and U. S. explanation, 543, 544-545

Recognition (*see also* U. S. policy, *infra*), by Spain of Grau San Martín regime, 483

Students, participation in political activities. *See* Céspedes, Carlos Manuel de: Student Council, *supra*; and Grau San Martín regime; Student organizations, *supra*.

U. S. diplomatic representatives: Caffery, Jefferson, appointment as Personal Representative of the President to Cuba, 286, 367, 371, 521, 523, 526, 538, 543; exploratory conversations with Cuban officials, 544, 545, 546

Welles, Sumner (*see also* Machado government: U. S. good offices: Mediation, *supra*): Appointment as U. S. Ambassador to Cuba, 277-279, 287, 367-369; delay in termination of period of Ambassadorship owing to Cuban political crisis, 286, 317, 319-320, 325, 428, 432, 504, 515, 521, 523, 536, 538, 539, 541; message of congratulation from President Roosevelt and U. S. Secretary of State, and acknowledgment, 360, 360-361; non-acceptance of communication from Grau San Martín to President Roosevelt requesting recall of Ambassador Welles, 524; temporary

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

U. S. diplomatic representatives—Continued

return to United States for conference with President Roosevelt at Warm Springs, 520–521, 523, 526, 528

U. S. military and naval forces:

Troops: Cuban proposal for use as police force, and U. S. unwillingness to accede to, 388, 389–391, 392, 396–398, 401, 402, 404, 406–407, 407–408, 418–419; false reports of landing of U. S. marines, and threatened Cuban Army mutiny, 480, 511, 512

Vessels. *See* Protection of American and other foreign lives and property: U. S. vessels, *supra*.

U. S. policy of nonintervention in Cuba, and nonrecognition of provisional governments:

Consultations with, and views of Latin American countries, 380, 382–383, 392–395, 402, 404–405, 409, 412–414, 417, 418, 420–421, 421–422, 422, 428–431, 434–435, 437, 468, 474, 475, 476, 483–484, 484–485, 491, 507–508, 526, 529, 533; Mexican proposal to ABC powers for appeal to Cuba for protection of foreign interests, and views of ABC powers, 401, 416, 420–421, 428–429, 434–435, 437

Declarations concerning:

Authorization by President Roosevelt for statement by U. S. Ambassador concerning question of recognition, *Sept. 8*, 410

Circular telegram to certain diplomatic and consular missions concerning U. S. policy in Cuba, *Sept. 11*, 422

Statements by President Roosevelt to the Cuban people:

July 1: Cited, 316, 317, 331, 452; recommendations by Ambassador Welles, 292, 310; text, 311

Sept. 11: Cited, 427, 443–444, 482; recommendations by Ambassador Welles, 423; text, 424

Nov. 23: Cited, 526, 533; recommendations by Ambassador Welles, 452–453, 454–455, 457–458, 459; text, 525–526

Cuba—Continued

Revolution, and U. S. efforts to aid in restoring political peace—Con.

U. S. policy of nonintervention in Cuba—Continued

European powers, attitude of, 529

Grau San Martín regime: Alleged U. S. commitments regarding recognition, and U. S. denial, 478–479, 481, 482–483; denial by U. S. Secretary of State of press reports of statement favoring recognition of, 528; desire for U. S. recognition, and U. S. attitude, 417, 418, 439, 442, 451, 462, 527, 527–528, 533–534

Machado government, outline of U. S. policy concerning, 279–286

Reports and recommendations by U. S. Ambassador concerning general policy, 417, 426, 439–440, 452–453, 454–455, 458, 462, 472–474, 487–491, 520

Trade agreement with United States, negotiations concerning, 278, 285, 288, 289, 290, 290–291, 293–294, 304, 306, 317, 319, 325, 331–332, 367, 369, 373, 525

Treaty of 1903 with United States (*see also* Financial situation: Funding of floating debt, *supra*), cited, 279, 283, 312, 337, 340, 342, 347, 353, 525

Customs:

Bolivia, reciprocal arrangement with United States for extension to consular officers of free importation privileges with respect to articles for personal use, 9–12

Haiti. *See* Haiti: Waiving of immunity for American treaty official.

Czechoslovakia, compensation agreement with Chile, 134

Debts. *See* Brazil: Servicing of federal, state, and municipal debts; Colombia: Debt, external; Dominican Republic: Foreign debt.

Diplomatic and consular officers:

Bolivia, reciprocal arrangement with United States for extension to consular officers of free importation privileges with respect to articles for personal use, 9–12

Cuba. *See* Cuba: Revolution: U. S. diplomatic representatives.

Dominican Republic, 392–393, 404–405, 421–422, 589–671

Cuban revolution, Dominican attitude concerning U. S. policy of non-

- Dominican Republic—Continued
 intervention and nonrecognition of provisional governments, 392-393, 404-405, 421-422
 Emergency Law of Oct. 1931. *See* Foreign debt, *infra*.
 Emergency Plan. *See* Foreign debt: Functioning of Emergency Plan, *infra*.
 Foreign debt, execution of Emergency Law of Oct. 1931 and further suspension of amortization payments, 589-671
 Cestero, Dr. Tulio M., appointment as Dominican Finance Minister, 644-645
 Fiscal Agency, arrangements for transfer to Guaranty Trust Co. of New York, 606-607, 608, 609-610, 611, 618-619; plan for modification of loan contract at time of transfer, and U. S. objections, 606-607, 608, 610
 Functioning of Emergency Plan, questions concerning:
 Floating debt, eventual funding of, 597, 598-602, 602
 Measures contrary to Emergency Plan, 590, 591, 596-598
 Miscellaneous problems, 603-605
 Silver coinage, 604, 610
 Surplus revenue, application to amortization payments, 605-606, 608-609, 643; U. S. recommendations, and Dominican attitude concerning, 605, 640, 642, 643-644, 645-647, 647-648, 668, 669-670
 Moratorium on amortization payments, proposed, 636-637, 640
 Reorganization plan for readjustment of external debt to provide funds for reconstruction and rehabilitation:
 Advisory Committee of banking firms to study matter of reduction of amortization rates, formation of, 624-626, 626, 627-628; question of recognition by President Trujillo, 630-631
 Bondholders' representatives, negotiations with:
 Consultations to secure approval of proposed plan, 613, 616, 618, 619, 623, 636, 641, 642, 648, 649, 660, 663-664, 667, 668, 669
 Foreign Bondholders' Protective Council, suggestion for use as an intermediary, 637, 639, 663-664
- Dominican Republic—Continued
 Foreign debt—Continued
 Reorganization plan, etc.—Con.
 Bondholders' representatives—Continued
 Proposed delay in negotiations pending return from Conference at Montevideo, alleged request by U. S. Secretary of State, and U. S. denial, 668-669, 670-671
 Modification and extension of Emergency Law of 1931:
 Discussions and proposals concerning, 611-614, 614-615, 619, 620-624, 624-627, 628-631, 636-637, 644-645, 652-655; U. S. views, 614, 615-616, 630, 631, 639-640, 642, 659, 659-660
 Letter of explanation from Dominican Government, 660-665; U. S. reply, 667, 668
 Passage and signature of law extending Emergency Law from and after Dec. 31, 665
 U. S. Minister's observations, 629, 640-641, 643-645, 655-659, 666-667
 Special Agent under Emergency Law:
 Dunn, W. E.:
 Relations with Dominican Government, 589-591, 632-636; expiration of contract and nonrenewal by Dominican Government, 632, 638
 Status, U. S. views concerning, 591-593
 Newnan, Oliver P., appointment by Dominican Government, 638-639
 Suspension of interest payments on foreign debt, news editorial proposing, and President Trujillo's denial of possibility of such action by Dominican Government, 617-618, 637
 U. S.-Dominican Convention of 1924: Cited, 591, 594, 597, 598, 599, 600-601, 610, 612, 613, 635, 637; Dominican desire for revision of, and U. S. views, 637, 641, 648-652, 655-659
 Treaty with United States. *See* Foreign debt: U. S.-Dominican Convention of 1924, *supra*.
 Dunn, W. E., Special Agent appointed under Dominican Emergency Law of 1931, 589-593, 632-636, 638
- Ecuador, 507-508, 672-677
 Cuban revolution, Ecuadoran attitude concerning nonintervention by United States and other countries, 507-508

Ecuador—Continued

- Exchange restrictions, 672-677
 - Legislation concerning exchange control, proposed, 674, 675; promulgation of decree, *Dec. 16, 1917*
- U. S. efforts to secure equitable treatment for American interests:
 - U. S. Minister's report on situation and recommendations for measures to protect American interests, 675-677
 - U. S. representations, 672, 673-674, 675
- El Salvador, U. S. refusal to recognize Martínez regime on basis of Central American Treaty of 1923, and attitude of other countries, 678-690
- Chile, proposed formal recognition of Martínez regime, and inquiry concerning U. S. position, 684
- Costa Rica, denunciation of Treaty, and proposed recognition of Martínez regime, 690; U. S. views, 690
- Guatemala, willingness to cooperate with U. S. policy with respect to Martínez regime, 678-679
- Honduras, position respecting maintenance of Treaty and nonrecognition of Martínez regime, 686-687, 688-689
- Mexico, offer of mediation in order to bring about U. S. recognition of a government in El Salvador, 679-683; U. S. position, 685-688, 689
- Revision of Treaty and recognition of Martínez regime, press reports of efforts to obtain U. S. approval of a conference for, and U. S. comments, 684-685, 688-690
- Exchange restrictions. *See under* Brazil, Chile, and Ecuador.
- Extradition. *See under* Haiti: Waiving of immunity for American treaty official.
- Federal Reserve Bank. *See* Brazil: Exchange restrictions: Efforts of Supervisor of Exchange of Federal Reserve Bank of New York on behalf of American exporters.
- Finances. *See* Brazil: Servicing of Brazilian federal, state, and municipal debts; Colombia: Debt, external; Cuba: Financial situation; Dominican Republic: Foreign debt; Haiti: Administrative and fiscal control by United States.
- Foreign Bondholders Protective Council, representative of American bondholders in regard to settlement of external debt questions in Brazil,

Foreign Bondholders, etc.—Con.

- 82, 86, 87, 90, 92, 92-94, 95, 96; in Colombia, 255, 256-257, 258, 259; in Dominican Republic, 637, 639, 663-664
- France:
 - Brazil. *See under* Brazil: Exchange restrictions.
 - Chile, compensation agreement with, 104, 108, 109, 110, 111, 118, 119, 129, 132, 134, 146-147
 - Cuban revolution: Indefinite postponement of proposed visit of French naval vessel to Cuba, 432-433, 437; killing of French national by disorderly forces, 401-402; recognition of Cuban *de facto* government, French attitude concerning, 529
 - Ecuador, clearing agreement with, 672, 672-673, 673, 674-675
- Free importation privileges, arrangement between United States and Bolivia for reciprocal extension to consular officers of privileges of free importation of articles for personal use, 9-12
- Germany:
 - Bolivian extraordinary war taxes, German representations for exemption of German nationals, 4, 7
- Chile:
 - Compensation agreement with, 114, 134
 - Liquidation of Cosach (Nitrate Corporation of Chile) and reorganization of nitrate industry: Chilean submission of draft plan of reorganization, 186
 - Representations by German Government, 163, 169; Chilean reply, 170, 184, 186
- Grau San Martín, Ramon. *See* Cuba: Revolution: Grau San Martín regime.
- Great Britain:
 - Bolivia:
 - British representations for exemption of British nationals from Bolivian extraordinary war taxes, 2, 3, 4, 5, 7-9; Bolivian position, 7-8
 - Commercial treaty of 1911, cited, 3, 8
 - Brazil. *See under* Brazil: Exchange restrictions: Foreign loans.
 - Chile:
 - Exchange agreement, negotiations concerning, 134, 135, 136, 145, 151, 152
 - Liquidation of Cosach (Nitrate Corporation of Chile), and reorganization of nitrate industry: British attitude toward Chilean action, 155, 160

Great Britain—Continued

Chile—Continued

Liquidation of Cosach—Continued
Memorandum of conversation
between British bankers and
Chilean Minister of Finance,
156-157

Representations by British Gov-
ernment, 163, 169, 191, 193,
199, 215; Chilean reply, 170,
184, 186

Submission by Chilean Govern-
ment of draft plan for reor-
ganization of nitrate indus-
try, 186

Cuban revolution: Damage to British
property, 345; recognition of
Cuban *de facto* government,
British attitude concerning, 529

Guardia Nacional. *See* Nicaragua:
Disclaimer by Department of State
of further responsibility.

Guatemala:

Cuban revolution, Guatemalan atti-
tude concerning U. S. noninter-
vention, 392-394

El Salvador, Guatemalan willingness
to cooperate with U. S. policy
with respect to Martínez regime,
678-679

Haiti, 392-393, 691-797

Administrative and financial control
by United States, 691-778

Accord of Aug. 7. *See* Agreement
between United States and
Haiti, *infra*.

Agreement between United States
and Haiti for the Haitianiza-
tion of the Garde and with-
drawal of military forces from
Haiti and financial arrange-
ments:

Negotiations for an agreement
based on modifications of
terms of unratified treaty of
1932:

Amended treaty containing
changes proposed by Hai-
tian Government in unrat-
ified treaty of Sept. 3, 1932,
Haitian suggestion for,
714-716, 718-719, 722-728,
729, 730; draft text, 723-
728

Financial control, Haitian sug-
gested agreement covering,
752-754; U. S. views, 753,
753-754

General principles of U. S. pol-
icy, 735-738

Haiti—Continued

Administrative and financial control
by United States—Continued

Agreement between United States
and Haiti—Continued

Negotiations, etc.—Continued

Haitianization of the Garde,
desire of Haitian Govern-
ment for immediate con-
clusion of a separate agree-
ment concerning, 738-746,
748-752, 753, 754; U. S.
views, 746-748, 753, 753-
754

Signature, 754-755

Statement by U. S. Secretary of
State expressing gratifica-
tion at conclusion of the
agreement, 762

Text signed Aug. 7, 755-761; ex-
change of notes concerning
art. 8, 762

Views of Haitian leaders and of
the press, 762-764

Artibonite irrigation project. *See*
Haitian efforts to secure funds,
infra.

Haitian efforts to secure funds for
irrigation and other public
works projects, and U. S. in-
sistence on adoption of new
financial arrangement before
giving consent to increase of
Haitian national debt:

Fruit companies, interest in irri-
gation project: Standard
Fruit Co., 709, 712, 713, 715,
716, 717, 729, 733; United
Fruit Co., 712, 716, 717, 731*n*

Loans:

Advance from reserve fund,
Haitian request for, 691,
692, 693, 697, 699, 706, 707,
710, 722, 729, 733-734; U. S.
authorization for, 734, 737

National City Bank loan, ne-
gotiations for: Long-term
loan, 691, 692, 693, 694,
704-705, 706, 707; short-
term loan, 702, 704-705,
706, 706-707, 714-716,
718-719, 720, 721-722, 728,
730, 734

Moratorium on amortization pay-
ments, Haitian request for,
and U. S. disapproval, 691,
692, 699

Political situation, 694, 699-700,
708

U. S. Minister's observations and
recommendations, 699-702,
707-710, 710-713, 716-717,
730-732, 733-734

Haiti—Continued

Administrative and financial control by United States—Continued

Haitian efforts to secure funds for irrigation, etc.—Continued

U. S. views, 692-693, 694-698, 702-704, 705, 710, 713-714, 721, 728-730, 734

Relinquishment of financial control by United States, Haitian desire for:

Appeal by President Vincent to President Roosevelt:

Arrangements for transmittal of President Vincent's letter, 766

Publication of appeal and related correspondence, question of, 766-767, 768-769, 769-770, 772, 772-773, 774

Text, 764-766; reply by President Roosevelt, 767-768

Offer of National City Bank to sell stock of National Bank of Haiti to Haitian Government, 773-774

Proposals by Haitian delegation to Seventh International Conference of American States to members of American delegation, 768, 769, 770-771, 772, 773, 774-778; oral statement of U. S. position, 776

Budget and Accounting Law of July 4, U. S.-Haitian exchange of notes, Oct. 31, for correction of certain omissions in: Negotiations, 778-783; texts, 782-783, 784

Cuban revolution, U. S. explanation concerning nonintervention policy, 392-393

Garde d'Haiti. *See under* Treaties, *infra*.

Treaties and agreements with United States:

Agreement for the Haitianization of the Garde and withdrawal of military forces from Haiti and financial arrangements. *See under* Administrative and financial control, *supra*.

Exchange of notes, Oct. 31, with respect to Haitian Budget and Accounting Law of July 4: Negotiations, 778-783; texts, 782-783, 784

Extradition treaty of 1904, cited, 796, 797

Garde d'Haiti (*see also* Administrative and financial control: Agreement between United States and Haiti, *supra*), agreements amending the

Haiti—Continued

Treaties and agreements with United States—Continued

Garde agreement of Aug. 24, 1916:

Information concerning, 784, 785-787

Texts: Agreement signed July 19, 784-785; exchange of notes of Oct. 27, 787-788

Waiving of immunity for American treaty official (David P. Johnson) from jurisdiction of Haitian courts in case of fraud in the collection of customs, 788-797

Compromise settlement of civil claim, negotiations for, and Financial Adviser's position concerning his inability to participate, 791-793, 794

Extradition of Johnson, question of:

Departure from Haiti, report of, 794-795; Haitian note to U. S. Minister, and subsequent withdrawal, 795-796

U. S. observations on provisions of U. S.-Haitian extradition treaty, 796-797

Hudicourt resolution referring to customs frauds and proposing return to Haiti of administration of Haitian affairs, action by Haitian Senate on, 789, 791

Surrender of Johnson to Haitian jurisdiction for action on fraud charges: Assurances of fair trial and sentence, U. S. demand for as condition for waiving of immunity, and Haitian guarantees, 789-790; press release issued by Department of State concerning, 788-789; release of Johnson on bail, U. S. request for, 794

Honduras: Cuban revolution, attitude concerning U. S. nonintervention policy, 393; El Salvador, Honduran position respecting maintenance of Central American Treaty of 1923 and nonrecognition of Martinez regime, 686-687, 688-689

Importation privileges. *See* Free importation privileges.

Italy: Chile, compensation agreement with, 114, 134; Costa Rica, proposed treaty of commerce and navigation, U. S. informal suggestions respecting canal provisions, 266-269; Cuban revolution, Italian attitude concerning recognition of *de facto* government, 529

Japan, question of possible difficulties with United States, 833, 834-839

- Kent, Fred I., Supervisor of Exchange of Federal Reserve Bank of New York. *See the following under Brazil*: Exchange restrictions: Efforts of Supervisor of Exchange; Servicing of Brazilian federal, state, and municipal debts: Plan for the adjustment of: Consultations with foreign advisers: Kent, Fred I.
- Loans. *See Brazil*: Exchange restrictions: Foreign loans; *and under Haiti*: Administrative and financial control: Haitian efforts to secure funds.
- Machado, Gerardo. *See Cuba*: Revolution: Machado government.
- Mexico, 350-351, 394-395, 401, 412-414, 416, 420-421, 428-429, 430, 434-435, 437, 484, 679-683, 685-688, 689, 798-847
- Boundary questions. *See Convention with United States, infra.*
- Chinese nationals, illegal entry into United States from Mexico. *See Illegal entry, infra.*
- Claims, U. S.-Mexican, efforts to reach a settlement of, 798-823
- En bloc settlement, Mexican proposals for: Discussions prior to formulation of proposals, 798-802; negotiations concerning, 802-811; observations of U. S. Ambassador, 811-813; U. S. views as to unacceptability of, 813, 814-815, 821
- Protocol between United States and Mexico regarding general claims, U. S. proposal for: Draft text, 816-820; objectives, 813-814, 815-816; views of Department of State concerning, 821-823
- Special claims, U. S. tentative proposal concerning, 823
- Convention with United States for rectification of the Rio Grande in the El Paso-Juarez Valley, and exchanges of notes, 823-830
- Negotiations, summary, 823-824
- Texts: Convention signed Feb. 1, 824-828; exchanges of notes, Feb. 1 and Sept. 8, 828-830
- Cuban revolution:
- Military mission for training of Cuban Army officers, Cuban arrangements with Mexican Government for, 484
- Mexico—Continued
- Cuban revolution—Continued
 - Participation of Latin American countries in mediation negotiations between Machado government and opposition groups, Mexican attitude concerning, 350-351
 - U. S. policy of nonintervention and nonrecognition of provisional governments, Mexican attitude concerning, 394-395; Mexican proposal to ABC powers for appeal to Cuba for protection of foreign interests, and views of ABC powers, 401, 412-414, 416, 420-421, 428-429, 434-435, 437
 - U. S. vessels dispatched to Cuba, Mexican views as to advisability of withdrawal, 429, 430
 - El Salvador, Mexican offer of mediation to bring about U. S. recognition of a government in, 679-683; U. S. position, 685-688, 689
 - Illegal entry of Chinese nationals from Mexico into the United States, 839-847
 - Information concerning expulsion of Chinese nationals from Mexico and their illegal entry into United States, 839, 840-841, 842-843
 - U. S. efforts to stop:
 - Informal representations to Mexican Government for action to control situation, 839-840, 841-844; Mexican instructions to Migration offices, 844-845
 - Negotiations with Chinese Government concerning funds for repatriation to China of Chinese refugees from Mexico, 845-847
 - Joint commission, U. S.-Mexican, to study matters of mutual self-defense, recommendations by U. S. Ambassador and Mexican Foreign Minister for appointment of, 830-839
 - Rio Grande. *See Convention with United States, supra.*
 - Treaty with United States. *See Convention, supra.*
 - Monetary and Economic Conference, London, June 12-July 27, 45, 48-49, 50, 85, 86, 96-97, 124, 127, 130, 131, 132, 291
 - Moratorium. *See under Cuba*: Financial situation; Dominican Republic: Foreign debt; Haiti: Administrative and financial control by United States.

- Most-favored-nation treatment, U. S. representations with respect to clearing agreements between Ecuador and other countries, 672, 673-674, 675
- National City Bank of New York, financial negotiations with Haiti:
 Loan negotiations: Long-term loan, 691, 692, 693, 694, 704-705, 706, 707; short-term loan, 702, 704-705, 706, 706-707, 714-716, 718-719, 720, 721-722, 728, 730, 734
 Offer to sell stock of National Bank of Haiti to Haitian Government, 773-774
- Netherlands, relations with Chile:
 Compensation agreement, 134
 Liquidation of Cosach (Nitrate Corporation of Chile), and reorganization of nitrate industry in Chile:
 Chilean submission of draft plan, 186
 Representations by Netherlands Government, 169; Chilean reply, 170, 184, 186
- Newman, Oliver P., Special Agent appointed under Dominican Emergency Law of 1931, 638-639
- Nicaragua, 393, 848-851
 Cuban revolution, U. S. explanation concerning nonintervention policy, 393
 Disclaimer by Department of State of further responsibility regarding the Guardia Nacional following the evacuation of Nicaragua by U. S. Marines, 848-851; statement issued to the press, *Jan. 2*, on the occasion of the withdrawal of American armed forces from Nicaragua, 848-849
- Niemeyer, Sir Otto, 75-76, 77, 81, 87, 89
- Nitrates. *See* Chile: Liquidation of Cosach.
- Nonintervention policy of United States. *See* Cuba: Revolution: U. S. policy.
- Nonrecognition. *See* Cuba: Revolution: U. S. policy; *and* El Salvador.
- Panama, 393, 475, 852-868
 Canal Zone, U. S. adoption of remedial measures in consultation with President Arias during his visit to the United States, 852-868
 Discussion between President Arias and U. S. State, War, and Navy
- Panama—Continued
 Canal Zone—Continued
 Department officials concerning administrative measures in Canal Zone, 853-856
 Memorandum by President Arias requesting remedial measures of administrative character: Observations by U. S. Secretary of State concerning, 856-863; text, 863-865
 Radio control in Panama, question of, 853-854, 861-862, 864, 865, 866
 Roosevelt-Arias discussions:
 Desire of President Arias for personal interview with President Roosevelt to discuss questions arising from U. S.-Panamanian treaty of 1903, 852-853
 Memorandum of points agreed to, 865-868; memorandum recording two statements by President Roosevelt in connection with certain measures, 868
 Cuban revolution: Panamanian attitude concerning recognition of Grau San Martín regime, 475; U. S. explanation concerning nonintervention policy, 393
 Treaty with United States (1903), cited, 852, 860, 863, 868
 Paraguay, attitude concerning U. S. policy of nonintervention in Cuban revolution, 392-393, 468
 Peru, U. S. explanation concerning nonintervention policy with regard to Cuban revolution, 393
 Petroleum imports into United States, Colombian interest in increase in, and U. S. policy concerning, 243, 244-246
 Pittman, Senator Key, opinion on possible en bloc settlement of U. S.-Mexican claims, 812-813
 Protection of American and other foreign lives and property. *See under* Cuba: Revolution.
- Recognition (*see also* Nonrecognition), Spanish, of Grau San Martín regime in Cuba, 483
- Reconstruction Finance Corporation, 20, 22, 51, 52, 53, 55, 579, 582*n*, 583, 585, 588
- Schroeder coffee loan (São Paulo), 1930, 32, 34, 36, 37, 77, 78, 83, 84, 99

- Seventh International Conference of American States, Montevideo, *Dec. 3-26*:
 Allusions to, 96*n*, 150, 669, 670, 680, 681-682, 822, 883-884
 Haitian proposals to American delegation concerning control of Haitian finances, 768, 769, 770-771, 773, 774-778; U. S. position, 776
 Spain:
 Chile, compensation agreement with, 108, 111, 129, 134
 Cuban revolution:
 Recognition by Spain of provisional government of Grau San Martín, 483
 Spanish citizens: Protest at treatment of, 345; reported dispatch of U. S. vessel for protection of Spanish lives and interests in compliance with treaty obligations, and U. S. explanation, 543, 544-545
 Ecuador, negotiations for clearing agreement with, 672, 673, 675
 Treaty of peace with United States (1898), cited, 543
 Sweden, compensation agreement with Chile, 134
 Taxation:
 Bolivia. *See* Bolivia: Extraordinary war taxes.
 Colombia, information concerning departmental and municipal taxes in, 242, 243-244
 Trade agreements between United States and—
 Brazil:
 Arrangements for exploratory conversations, 13-23
 Draft text submitted by United States, 23-28; efforts to expedite Brazilian consideration of draft, 29-30
 Status of negotiations, report concerning, 28-29
 Colombia. *See* Colombia: Trade agreement with United States, unperfected.
 Cuba, negotiations concerning, 278, 285, 288, 289, 290, 290-291, 293-294, 304, 306, 317, 319, 325, 331-332, 367, 369, 373, 525
 Treaties, conventions, etc. (*see also* Trade agreements):
 Central American General Treaty of Peace and Amity. *See* El Salvador.
 Commercial treaties:
 Bolivia, commercial treaty with Great Britain (1911), cited, 3, 8; with United States (1858), cited, 1, 2, 3, 4, 5, 6, 7, 9
 Treaties, conventions, etc.—Continued
 Commercial treaties—Continued
 Chile. *See* Chile: Exchange restrictions: Provisional agreement.
 Costa Rica-Italy, U. S. informal suggestions with respect to the canal provisions of the proposed treaty of commerce and navigation between Costa Rica and Italy, 266-269
 Extradition treaty, U. S.-Haiti (1904), cited, 796-797
 U. S.-Bolivia (1858), cited, 1, 2, 3, 4, 5, 6, 7, 9
 U. S.-Cuba, treaty of 1903 (*see also* Cuba: Financial situation: Funding of floating debt), cited, 279, 283, 312, 337, 340, 342, 347, 353, 525
 U. S.-Dominican Republic, convention of 1924: Cited, 591, 594, 597, 598, 599, 600-601, 610, 612, 613, 635, 637; Dominican desire for revision of, and U. S. views, 637, 641, 648-652, 655-659
 U. S.-Haiti. *See under* Haiti.
 U. S.-Mexico. *See* Mexico: Convention for rectification of the Rio Grande.
 U. S.-Panama (1903), cited, 852, 860, 863, 868
 U. S.-Spain (1898), cited, 543
 Uruguay, maintenance of official relations with provisional government of Grau San Martín in Cuba, 476; unsuccessful attempt by Uruguayan Minister at mediation between political leaders and representatives of Grau San Martín government, 460-461, 527, 530, 532, 535, 537-538, 539, 540, 541, 545, 546
 U. S. citizens. *See* Cuba: Revolution: Protection of American and other foreign lives and property.
 U. S. commercial interests (*see also* Exchange restrictions *under* Brazil, Chile, and Ecuador):
 All America Cables, 136
 Chase National Bank. *See* Cuba: Financial situation: Chase National Bank agreements.
 Compania Sud Americana de Explosivos, 116-117
 Dupont-Atlas Co., 110, 116-117
 Foreign Bondholders Protective Council, representative of American bondholders in regard to settlement of external debt questions in Brazil, 82, 86, 87, 90, 92, 92-94, 95, 96; in Colombia, 255, 256-257, 258, 259; in Dominican Republic, 637, 639, 663-664

- U. S. commercial interests—Continued
General Motors, 136
International Telephone and Telegraph Co., 136
National City Bank of New York, financial negotiations with Haiti: Loan negotiations: Long-term loan, 691, 692, 693, 694, 704-705, 706, 707; short-term loan, 702, 704-705, 706, 706-707, 714-716; 718-719, 720, 721-722, 728, 730, 734
Offer to sell stock of National Bank of Haiti to Haitian Government, 773-774
Patino Mines and Enterprises, 1, 3-4, 5, 6-7
Singer Sewing Machine Co., 110
Standard Fruit Co., 709, 712, 713, 715, 716, 717, 729, 733
Standard Oil Company of New Jersey, 136
United Fruit Co., 263, 265, 712, 716, 717, 731*n*
- U. S. Marines: False reports of landing in Cuba, and threatened mutiny of Cuban Army, 480, 511, 512; statement issued by Department of State on the occasion of the withdrawal of American armed forces from Nicaragua, 848-849
U. S. military and naval forces (*see also* Cuba: Revolution; Haiti: Administrative and financial control: Agreement with United States), statement issued to the press, *Jan. 2*, on the occasion of the withdrawal of American armed forces from Nicaragua, 848-849
Venezuela, U. S. explanation of nonintervention policy with regard to Cuban revolution, 393
Welles, Sumner. *See under* Cuba: Revolution: U. S. diplomatic representatives.



